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memo	~~From Owen to The President (1 page) re: Foreign Aid Re-organization /enclosed in Hutcheson to Brzezinski, Owen and McIntyre~~ opened per RAC NLC-126-16-19-1-3, 7/29/13	2/12/79	A

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THE WHITE HOUSE
WASHINGTON

2/13/79

Zbig Brzezinski/Henry Owen
Jim McIntyre

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Jim McIntyre--please notify affected agencies as appropriate.

Rick Hutcheson

cc: Stu Eizenstat
Frank Moore
Jerry Rafshoon
Richard Pettigrew

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		SCHNEIDERS
		VOORDE
		WARREN
		WISE

THE WHITE HOUSE
WASHINGTON

2/13/79

Mr. President:

Memos from Blumenthal, Vance and additional comments from Henry Owen are attached. However, the McIntyre-Owen memo summarizes all views.

Owen is reflecting Brzezinski's views. Congressional Liaison concurs with NSC/Owen in all cases.

Rick

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

C

February 12, 1979

MEMORANDUM

TO: THE PRESIDENT

FROM: JAMES T. McINTYRE, JR. Jim
HENRY OWEN

SUBJECT: Foreign Assistance Organization

The development assistance authorization act for FY 1979 required you "to institute a strengthened system of coordination of all U.S. economic policies affecting the developing countries" and to report to the Congress by February 1, 1979,* on the measures taken and proposed toward those ends. This memorandum seeks your decisions on how strengthened coordination of foreign assistance programs should be achieved. It follows extensive consultations with the concerned departments and agencies and with Frank Press.

BACKGROUND

1. Nature of the Problems

Foreign aid has long been a problem for the Executive branch. An underlying cause is the public perception that foreign aid is simply a "giveway" program. The results are annual appropriation fights, and the enactment of myriad (and often conflicting) administrative, foreign policy, and special-interest restrictions and prescriptions.

Skepticism toward development aid is reinforced by three related problems.

*The relevant committee chairmen have no objection to this report being slightly delayed.

A weak AID. First, the AID program, which includes more than eighty percent of all of the Federal personnel working on foreign assistance, suffered for many years from low morale, a largely undistinguished staff and weak senior management. Though improvements have been made in recent years, much remains to be done.

Multiple Goals. Second, by law or policy, the component programs of development aid must serve multiple objectives: P.L. 480 food aid, for example, must meet development, humanitarian, short-term diplomatic, market development, and domestic commodity management goals. AID's relatively limited development assistance funds have often been diverted to meet short-term political needs abroad.

No one in Charge. Third, the U.S. affects development abroad through a variety of instruments--mainly bilateral loans and grants, contributions to multilateral development institutions, food aid, and trade policy. The AID director is responsible for the first, the Secretary of the Treasury for the second, the Secretary in Agriculture for the third, and a group of cabinet and EOP officials for the fourth. While mechanisms for coordination exist, no one has clear lead responsibility or authority for development efforts as a whole.

2. The IDCA Proposal and Your Actions in Response

The Humphrey bill (S. 2420) of last year was an attempt to deal mainly with the last two of those problems--multiple goals and the absence of anyone in charge. It would have established an International Development Cooperation Administration (IDCA), and made that agency responsible for U.S. bilateral loan and grant programs, contributions to multilateral development banks, voluntary contributions to UN development programs (for which State is now responsible); limited aspects of P.L. 480 (now shared between AID and USDA), OPIC, the Peace Corps (now part of ACTION) and support for private and voluntary agency programs.

Last March, in deciding upon the Administration response to the Humphrey bill, you (Tab A):

- o Approved the IDCA concept and, subject to several conditions, approved the transfer of OPIC and Peace Corps into IDCA if it were created.

- o Deferred deciding whether to transfer to IDCA responsibility for managing U.S. participation in multilateral development banks (MDBs) until further experience made clear whether such a transfer was needed.

For the interim, you:

- o Designated the AID Administrator as chief advisor to you and the Secretary of State on development policy and chief spokesperson for development aid before the Congress.

- o Expanded and strengthened the Development Coordination Committee (DCC), chaired by the AID Administrator, and directed him to prepare an annual development policy statement providing overall policy guidance for each component of the aid program.

- o Decided to propose an Institute For Technological Cooperation (IFTC) to promote scientific and technological research in the developing countries. (IFTC had not been part of the Humphrey bill.)

The Congress did not act last year on the organizational provisions of the Humphrey bill, but instead urged that you propose

> an International Development Cooperation Administration ... which would have ... primary responsibility ... for coordination of international development related activities and which would have in its organizational framework the maximum possible range of U.S. Government agencies and programs related to international development.

HIRC Chairman Zablocki later wrote to you to press the case for IDCA. Your September 27, 1978, response (Tab B) stated:

> As you know, I decided last year that there should be the kind of IDCA you have in mind. We are now considering how best to put this to the Congress.

A number of major issues remain unresolved. Since they relate closely to the questions you have already considered, and since the Humphrey bill no longer need set the framework for Administration decisionmaking, this memorandum treats all major questions as open for your reconsideration. The circumstances surrounding Governor Gilligan's departure have heightened congressional interest in a resolution of these issues that will emphasize development.

ORGANIZATIONAL ALTERNATIVES

We see four main alternatives: (1) create an IDCA having full authority over at least some development assistance programs, (2) create an IDCA having general policy and budget authority over programs assigned to it, (3) establish a development community coordinator in the Executive Office of the President with budget and general policy authority over such programs, and (4) retain existing arrangements. Though there are various degrees of congressional support and resistance to each of these options, congressional concern is not so strong or unified as either to require or to preclude your choice of any alternative. No substantial savings are automatically produced by any option. Neither would there be any staff increase; the staff positions required by options 1, 2, and 3 would be drawn from existing slots in affected agencies. It is possible that, under any alternative, small economies could be realized.

The options' formulations for budget control and policy authority leave room for some further debate among the affected agencies. We believe that we can work out specific implementing language (as we did in the intelligence reorganization) more easily once you have given us your basic preference. We will bring such issues back to you only if absolutely necessary.

1. IDCA with Full Authority Over Some Programs

In this alternative, an IDCA would be established as an independent agency within the Executive branch and subject to the foreign policy guidance of the Secretary of State. The Administrator would report both to you and the Secretary of State, would serve as the principal development advisor to each and would consult with the Secretary of State before submitting his budget to OMB. The Administrator's staff would be drawn from personnel slots already existing in IDCA's components.

The relation of the IDCA Administrator to IDCA's component programs would be as follows:

- AID, IFTC, and OPIC would become component entities of IDCA. Over AID, which would retain its own Administrator, the IDCA Administrator would exercise full authority. Over IFTC, whose success will require substantial operational autonomy, the IDCA Administrator would exercise budget and general policy authority. OPIC would continue to operate under the policy direction of its Board of Directors. The Administrator would replace the AID Administrator as Chair of the Board.

- o Peace Corps might or might not be included--that decision is presented separately below. If included, it would have, like IFTC, substantial operational autonomy subject to the Administrator's budget and policy authority.

- o Over P.L. 480, and U.S. participation in the MDBs and international organizations (IOs), the IDCA Administrator would exercise whatever authority you provide him by the individual decisions presented below.

The IDCA Administrator would chair the DCC and would make recommendations to you concerning the appointment and removal of senior officials of each IDCA component. To make it worth creating, such an agency should probably have authority over most of the development assistance programs presented individually for decision below, including some significant role with regard to the MDBs.

The advantages of this alternative are that, like option 2:

- o It would clearly signal the high priority to be given development goals.

- o It would provide the Executive branch official having principal responsibility for development with a permanent institutional base.

- o It is acceptable to Chairman Zablocki, the leading congressional proponent of reorganization in this area.

- o It would be consistent with you decisions of March 1978 (Tab A) and your recent letter to Congressman Zablocki (Tab B).

Disadvantages are that:

- o Having full authority over AID, the IDCA Administrator might become absorbed in its management, at the expense of his responsibilities for overall coordination.

- o It is unlikely that an Administrator having line authority over the AID program would be accepted by Cabinet members conducting other programs and by members of the Congress as a neutral policy coordinator over all assistance programs.

- o As a subcabinet officer, the head of IDCA would have limited ability to ensure that development goals are taken fully into account in U.S. decisionmaking on trade and monetary issues, and in decisions involving the relative priority of political versus development objectives. (The same objection applies to option 2.)

Same problem exists now

2. IDCA with Budget and Policy Authority

This alternative is identical to the first except that the authority of the Administrator with respect to all component agencies is limited principally to control over budget, setting of basic policies, and making recommendations to you concerning appointment and removal of senior officials of each component.*

The advantages of this option are that:

- o It would ensure that the IDCA Administrator focuses on the developmental significance of actions taken by all of the various U.S. agencies that affect development, and is not perceived merely as an AID director attempting to control programs of other departments.

- o It would symbolize high priority for development goals more clearly than option 3 or 4.

- o Like option 1, it would give the Executive branch official with principal development responsibility his own institutional base.

- o It is acceptable to Congressman Zablocki and consistent with you decisions of March 1978 (Tab A) and your letter of September 1978 (Tab B).

Disadvantages are that:

- o Like option 1, it requires a subcabinet official to influence development-related activities of Cabinet departments (e.g., trade and monetary issues).

*As under option 1, the IDCA Administrator would chair OPIC's Board.

- o It creates an additional independent agency whose Administrator would have no authority that could not be exercised (perhaps more powerfully) by an EOP coordinator under option 3.

3. <u>A Development Coordinator</u>

Under this alternative, an International Development Coordinator placed in the Executive Office of the President would approve the budgets and provide policy guidance for all development agencies and programs discussed in this memorandum. No IDCA would be established, and no programs would move from their current organizational locations (e.g., AID would remain within the State Department). All programs would retain substantial operating autonomy. The coordinator would have a small staff (drawn from the assistance agencies and not part of the Executive Office). He would chair or replace the DCC, would replace the AID Administrator as chair of the OPIC Board, and would lead the Administration's foreign assistance presentation to the Congress. He would submit an overall development budget directly to OMB.

Arguments for this model are that it:

- o Would provide means for establishing a coherent development policy and budget without compromising the operational autonomy or institutional identity of any component agency or program.

- o Would provide the chief development official, through his EOP position, with greater potential influence on trade-related decisionmaking and on political issues affecting development than an IDCA Administrator would possess.

- o Could be established almost entirely by Executive Order rather than requiring a reorganization plan, and is administratively easier to effect than options 1 and 2. (Details not accomplished by Executive Order could be covered through the foreign assistance authorization legislation.)

Disadvantages are that the option:

- o Given its Executive Office status, would provide less institutional permanence and, in the view of some key members of Congress, would be particularly dependent upon the personal relationship between the coordinator and the President.

- o Departs from your decision of March 1978 to establish an IDCA and the September assurance to Chairman Zablocki to that effect; will not satisfy Zablocki.
- o Brings an additional function into the EOP.

4. Retain Current Arrangements

The fourth option is to retain the DCC structure as the principal vehicle for coordinating foreign assistance programs, policies, and congressional presentations, and to encourage its further evolution. The only institutional change would be the creation of IFTC (through Executive Order and/or legislation).

Arguments for this option:

- o It would provide an opportunity to see whether the DCC, under new leadership, can fulfill the role you designated for it last spring.
- o It would preserve the distinctive purposes and operations of the various assistance programs.

Arguments against:

- o It requires that decisions on matters important to senior Cabinet officers be made by a committee headed by a subcabinet official without EOP status, an arrangement doubtful in principle and thus far unsuccessful in practice.
- o It is contrary to your March 1978 decisions and fails to meet your September assurance to Chairman Zablocki.
- o Some in Congress would attribute this outcome to indecisiveness. In conjunction with Governor Gilligan's departure, it would also be taken to mean that development goals had low priority.

Organizational Decision

1. IDCA, including Full Authority over AID (supported by State on the assumption that your decisions on the MDBs and IOs will be consistent with its recommendations). State proposes that the IDCA budget be submitted to OMB through the Secretary of State, who could modify it as he saw fit. Our view, as presented above, is that the IDCA Administrator should consult the Secretary of State in formulating his budget, but then present it directly to OMB. This issue is important symbolically, on the Hill and elsewhere, in signalling the priority that you attach to development, particularly in the wake of Jack Gilligan's departure.

/NOTE: If you choose this option or option 2, the entire remainder of this memorandum is relevant. It poses for your decision questions concerning the remaining programs and policies to be consolidated into IDCA./

Approved as recommended in this memo (Pettigrew) __________

Approved as modified by State as to budget (Owen and OMB oppose) __________

2. IDCA with Budget and Policy Authority (supported by AID, Henry Owen, and Frank Press).

Approved ✓ J

X 3. Development Coordinator (supported by OMB and Agriculture)

/NOTE: If you choose this option, you need consider in addition only the following discussion and decision regarding the MDBs./

Approved __________

X 4. Retain current arrangements (supported by Treasury and ACTION).

Approved __________

WHAT SHOULD IDCA CONTAIN?

If you have chosen option 1 or 2, you must decide whether each of the following program elements and authorities (in addition to AID, OPIC, and IFTC) should be assigned to IDCA. If you have chosen option 3, you need decide only as to the MDBs.

Multilateral Development Banks (MDBs)

Management of U.S. participation in the MDBs has long been delegated to the Secretary of the Treasury. The Secretary serves as the U.S. Governor of each MDB, nominates the U.S. Executive Directors of these institutions, and, after consultation with other agencies, provides policy guidance and instructions to the Executive Directors. The Under Secretary of State for Economic Affairs currently serves as the Alternate U.S. Governor of each MDB.

The issue is what responsibilities, if any, for the development aspects of MDB programs and policies should be assigned to IDCA or the Development Coordinator. (All participants agree that Treasury should retain responsibility for such purely financial MDB functions as controlling access of the banks to U.S. capital markets and monitoring MDB relations with the U.S. banking community.)

Senator Ribicoff and Congressman Zablocki strongly believe that reorganization should include the transfer of considerable authority with regard to the MDBs; their position is roughly that of option 3 below, although Zablocki will accept option 2.

The arguments for shifting some or all development-related responsibility for MDBs are:

- The MDBs are development institutions. The decisions made by their Executive Directors mainly concern lending priorities among countries, sectors, and functions--issues that hinge on development policy considerations and require development expertise.

- The MDBs are now the largest source of development loan funds in the world, yet U.S. development actions are not now well designed to complement those of the MDBs. Making one agency or individual responsible both for directing U.S. bilateral programs and advising U.S. Executive Directors of MDBs would provide the best likelihood of better performance.

- The presentation to Congress of a coherent U.S. development program that relates U.S. contributions to the MDBs to appropriations for the bilateral program would also be facilitated, and the current implicit competition between AID and Treasury for aid funds could be better controlled.

- Beefing up the DCC, as decided last March, has not materially altered the situation.

The main arguments against a substantial shift in MDB responsibilities are set forth below. These arguments are particularly relevant to the most radical shift, option 3.

- AID now has formal and informal mechanisms for providing advice on development-related issues in the MDBs, and does provide such advice. AID's influence has not been great, but the limits on its influence have been set more by the quality and intensity of AID's effort than its lack of formal authority.

- Of all the programs the U.S. finances, the MDBs are probably the most purely developmental in purpose and the most effective in advancing development. Shifting MDB responsibility from Treasury to IDCA or the Coordinator may risk limiting that effectiveness through congressional application to our MDB participation of restrictions like those now applied to bilateral assistance.

- U.S. policy towards the developing countries involves, in addition to development, a spectrum of financial, monetary and economic issues for which Treasury has responsibility and expertise.

- Any sharp diminution of Treasury responsibility for MDBs might make Treasury a less effective proponent of MDB funding in the Congress.

<u>MDB Decision</u>

We see three alternative resolutions of these differences:

1. <u>Retain Current Arrangements</u> (supported by Treasury; acceptable to State).

   Approved __________

2. IDCA Administrator or Development Coordinator is Consulted in Executive Director Selection and Advises Executive Directors.

Modify current coordinating arrangements by (a) requiring the Secretary of the Treasury to consult the Administrator (or Coordinator) in the selection of candidates for the Executive Director and Deputy Executive Director positions in the MDBs and to present to you any differences between the two when proposing names for your nomination, and (b) directing the Administrator (or Coordinator) to advise (but not instruct) U.S. Executive Directors on MDB projects and program proposals. (Supported by OMB, State, AID, and Henry Owen; acceptable to Treasury.) Pettigrew

Approved ✓ J

3. IDCA Administrator or Coordinator is Alternate Governor, is Consulted in Executive Director Selection, and Instructs Executive Directors on Development Matters.

Change existing arrangements by (a) appointing the IDCA Administrator (or Coordinator) as U.S. Alternate Governor, (b) requiring the Secretary of the Treasury to consult the Administrator (or Coordinator) in the selection of candidates for the Executive Director and Deputy Executive Director positions, presenting any differences to you, and (c) having the IDCA Administrator (or Coordinator) instruct the Executive Directors as to development matters (individual loans and credit sales, and replenishments), with Treasury retaining authority for financial matters. (Supported by no agency or advisor. Strongly preferred by Ribicoff and Zablocki, although option 2 is acceptable to Zablocki.)

/NOTE: The following issues arise only if you have chosen to create an IDCA./

International Organizations

The State Department oversees U.S. participation in all international organizations, including the organizations of the UN and the Organization of American States, and formulates U.S. policy regarding their programs and budgets. AID also plays some role. The issue is whether responsibility for managing U.S. participation in international organizations that are primarily developmental should be transferred from State to IDCA.

Favoring such a transfer from State to IDCA are the opportunities it would provide for:

- o Improved coordination between bilateral and multilateral development efforts at both policy and implementation levels.

- o Devotion of more development expertise to these organizations than State can provide.

- o A more comprehensive development assistance presentation before the Congress.

The arguments against such a transfer are that:

- o The benefits cited could be gained through greater use by AID of its current authority.

- o Possible gains in managing participation in developmental aspects of the UN and OAS systems might be outweighed by losses in the overall coherence of our UN and OAS roles.

International Organization Decision

1. Retain existing coordinating arrangements. (State supports.)

   Approved ____________

2. Transfer to IDCA lead responsibility for policy, program, and budget for those international organizations and programs whose purpose is primarily developmental.* State would advise IDCA on foreign policy considerations. (Supported by AID and OMB.) (H. Owen) Pettigrew

   Approved ✓

J

*UN Development Program; UNICEF; OAS Technical Assistance Funds; UN Capital Development Fund; UN Educational and Training Program for Southern Africa; UN/FAO World Food Program; FAO Post Harvest Losses Fund; UN Disaster Relief Organization.

P.L. 480

The P.L. 480 program has two major components: a Title I concessional sales program and a Title II donations program. Because Title II is focused almost entirely on humanitarian and developmental objectives, principal authority for its implementation has been delegated to AID. Title I, in contrast, has multiple purposes. Accordingly, while most of the authority for Title I is assigned to Agriculture, other authorities are assigned to other agencies, primarily State and AID. In practice, each participating agency has the opportunity to veto any proposed agreement. This arrangement is cumbersome, but reasonably effective.

Recent legislation has added new provisions (Title III) that authorize multi-year supply agreements and loan forgiveness for poorer countries in return for their undertaking specified additional rural and agricultural development activities. Title III is funded through Title I authority, and is now managed in the same fashion as Title I. The issue here is whether to assign to the IDCA Administrator authority (without veto to other agencies) to (2) determine a country's eligibility for Title III, (2) review the multi-year proposals submitted by such countries, and (3) monitor Title III program implementation.*

The principal arguments for delegation of Title III authority to IDCA are:

- o The dominant purpose of Title III (unlike Title I) is developmental. It should therefore be planned in conjunction with other assistance instruments.
- o Delegation to IDCA would better insulate Title III decisionmaking from the non-development concerns of State and USDA.

The arguments for maintaining the current arrangements are:

- o Developmental aspects of Title I/III food aid programs are well coordinated, and current USDA leadership has shown sensitivity to development objectives.

*In theory, responsibility for all P.L. 480 programs might properly be shifted to IDCA. In practice, however, the political costs of attempting such a shift appear prohibitive. It was not proposed in the Humphrey bill and is not now advocated by any of your advisers.

- o Title III is integral to Title I; split authority could lead to conflicting decisions and ineffective management, and reduce political support for Title III.

P.L. 480, Title III Decision

1. Maintain current arrangements. (Supported by OMB, Agriculture, and State.) (Eizenstat, Pettigrew) J

   Approved ✓

2. Transfer to IDCA full responsibility for determining eligibility, reviewing proposals, and monitoring implementation under Title III. (Supported by AID.)

   Approved ________

Peace Corps

The purposes of the Peace Corps include the fostering of international understanding and the expression of American ideals of individual voluntary service. But its activities also contribute to economic development in the Third World, and Peace Corps presence has been in many countries an important complement to the U.S. foreign assistance effort, particularly at the village level. AID and Peace Corps now cooperate extensively in the field, and coordination of their activities is increasing.

The issue is whether the development goals of Peace Corps should be emphasized further by transferring it from ACTION to IDCA. Congressional sentiment is unclear. Some members would sooner see it restored to the independent status it had until 1971 than have it remain in ACTION or be transferred to an IDCA.

The principal arguments for moving Peace Corps are that such a transfer would:

- o Encourage closer coordination of both program design and field operations between Peace Corps and other IDCA components.

- o Strengthen IDCA's "basic human needs" orientation through the people-to-people nature of Peace Corps operations.

The arguments against Peace Crops' inclusion are that:

- o Peace Corps' humanitarian and non-political character might be weakened.
- o Congress might then treat Peace Corps as a development aid agency, and encumber it with legislative restrictions like those that apply to AID programs.
- o Removal from ACTION would sever Peace Corps' links with domestic voluntary service organizations.
- o A Peace Corps subject to IDCA's authority might be pressured by AID to use volunteers as "junior experts" subordinate to AID field technicians, thereby limiting the nature of the Peace Corps experience.

Peace Corps Decision

1. Transfer Peace Corps to IDCA. This option was your decision in March, with the condition that (1) IDCA involve a substantial consolidation of other development aid programs, (2) Peace Corps have autonomy within IDCA, and (3) IDCA have substantial autonomy from State. (Supported by AID, assuming the conditions are satisfied.) (Pettigrew)

   Approved ______________

2. Further Study. Further urgent study to be conducted of (1) all ACTION programs and (2) alternative Peace Corps futures, including possible independent Peace Corps status as alternative to inclusion in IDCA if ACTION's domestic programs are reorganized. (Supported by OMB, Amb. Owen, State, and ACTION/Peace Corps.) Eizenstat

   Approved ✓

J

TAB A

THE WHITE HOUSE 1425

WASHINGTON

~~CONFIDENTIAL~~ GDS March 22, 1978

C

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN

SUBJECT: Foreign Aid Reorganization

1. Purpose. You promised Mrs. Humphrey that you would communicate your position soon to the Congress on the Humphrey bill reorganizing foreign aid. The PRC has met to discuss that bill. Its recommendations are set forth in the attached paper which describes the views of the various agencies and seeks your decisions. A separate memo (Tab C) sets forth Stu Eizenstat's views; for your convenience, I have also incorporated his positions in the attached options paper so that you won't have to refer back and forth between separate papers.

2. My Views. I concur with the PRC agreed recommendations. On the key split issue, I favor deferring a decision about whether to transfer IFI responsibilities from Treasury to the new aid agency until 1979, when experience with improved coordination will provide a better basis for that decision. — I concur ZB.

I suspect the most useful thing in the attached memo is the proposal for creation of a semi-autonomous foundation for technological cooperation with LDCs that will encourage and improve private and public research in the US and in LDCs, on problems of concern to LDCs. This proposal by Frank Press is strongly supported by Agriculture, AID, State, and other PRC agencies, and is acceptable to the bill's authors. It will help to meet the desire that you once expressed to see greater involvement of the private sector in our aid program.

~~CONFIDENTIAL~~ GDS ~~CONFIDENTIAL~~

Jay 4/5/90

Memorandum

THE HUMPHREY BILL

Introduction. S.2420, the Humphrey bill, attempts to consolidate most foreign economic assistance functions in one new International Development Cooperation Agency (IDCA) under an upgraded Administrator who would report directly to you; it proposes other reforms (e.g., removing present legislative restrictions), which I believe would do more to improve aid effectiveness than the bill's organizational changes. Reports differ widely on Congressional attitudes toward the bill, depending partly on which agency in the Executive Branch does the reporting. All agree, however, that its fate hinges on the Executive Branch's position.

1. General Posture. The PRC recommends that you endorse the bill as the vehicle for legislative mark-up this year, without precluding needed changes such as discussed below. There are many good features to the bill; the bad features can be corrected. If we oppose the bill, this will antagonize the bill's supporters; they may be few, but we need them.

✓ Approve ________ Disapprove

2. IFIs. The bill would transfer responsibility for backstopping the International Financial Institutions (IFIs) in relation to development policy from Treasury to IDCA. There are three alternatives:

Option #1: Treasury, supported by State, recommends that you reject this proposal -- arguing that a division of these functions between Treasury and IDCA would be unworkable, and would prejudice Congressional and investor support for the multilateral banks. Treasury and State recommend that the need for greater aid integration be met through the improved coordination mechanism proposed at Tab A, under which the IDCA Administrator would become the chief adviser on development policy to you and the Secretary of State and the chief spokesman for development aid on the Hill.

✓ Approve

Option #2: AID, supported by ACTION, Peter Bourne, and Frank Moore, recommends that you approve the transfer of IFI responsibilities to IDCA -- arguing that this would strengthen the effectiveness of aid by ensuring that one person makes the

~~CONFIDENTIAL~~ GDS

Jay 4/6/90 ~~CONFIDENTIAL~~

key US decisions on both bilateral and multilateral aid. AID and others point out that this position would be welcome to the bill's authors, who consider the IFI transfer a key feature of aid reform and who would strongly object to its deletion.

________ Approve

Option #3. OMB and the Domestic Policy Staff recommend going forward with the new coordination mechanism suggested at Tab A, as well as with other features of the Humphrey bill endorsed in this memorandum -- while postponing a decision on IFI transfer until experience with improved coordination has provided a better basis for deciding whether IFI transfer is really needed. Since improved coordination could only be fully tested after IDCA has been created, this would mean putting off the IFI decision until at least 1979 -- a postponement that would probably be welcomed by some in the Congress.

________ Approve

3. Presidential Authority. OMB and the Domestic Policy Staff recommend that we ask the Congress to make the language of the bill in respect of IFIs and coordination more general, so that your decisions on these issues can be made, and changed as necessary in the future, under your existing powers. No agency disagrees.

________ Approve ________ Disapprove

4. Agriculture. The bill leaves existing Executive Branch PL-480 arrangements unchanged, because of jurisdictional problems in the Senate.

The bill's authors hope that the Executive Branch and the House will transfer some PL-480 responsibilities from the Department of Agriculture to IDCA. AID and OMB favor this, in order to ensure PL-480's more effective competence in this area.

The Department of Agriculture wants to continue the existing arrangements, which give it a dominant role, because of its unique competence in this area.

Both these arguments have merit; but neither of these courses seems satisfactory. We need improved arrangements which will permit IDCA and Agriculture each to play strong roles in programming PL-480, so that we can get both better coordination with development aid and access to Agriculture's unique competenc The Domestic Policy Staff and I recommend that we ask the agenci concerned to come up with specific proposals, for White House review, as to how PL-480 might be handled, within the coordination arrangements described at Tab A in such a way as to have this ef

________ Approve ________ Disapprove

~~CONFIDENTIAL~~ GDS

5. Department of State. The bill would remove foreign economic assistance activities from the Department of State; the Administrator would report directly to you. The bill's authors want to ensure that bilateral concessional development assistance is not diverted to meet short-term political needs. We agree, but want to ensure an effective relation between State and IDCA. There are two alternatives:

Option #1: The PRC recommends that the Administrator report to you and the Secretary of State. This does not mean that the Secretary can instruct the Administrator as to what countries should receive what amounts of development aid or of PL-480 to meet short-term foreign policy needs. It does mean, for example, that he can instruct the Administrator about how much Supporting Assistance should go to what countries to meet political needs, and that he can provide the Administrator with general foreign policy guidance, while respecting the development purposes of IDCA programs. The Administrator would submit his budget to you via the Secretary -- with the understanding that any differences between the Secretary and him would be resolved by you.

Use language EO re
fm Intelligence budget Intel-NSC-OMB-Pres.

✓ Approve

Option #2: OMB and the Domestic Policy Staff accept the above, but recommend that the IDCA budget go directly to you, leaving it to OMB to obtain State comments. This procedure is suggested both to save time and to strengthen IDCA's statute and independence, as desired by the bill's supporters. This procedure is opposed by State; since the budget is an important policy document, State considers the procedure described under (a), above, an important element of its support for the proposed new relation between State and IDCA.

________ Approve

6. Coordination. The bill provides that coordination should be accomplished through the existing Development Coordination Committee. This Committee's work has been uneven; some improvement is needed. There are two alternatives:

Option #1: The PRC recommends that, if increased IFI and PL-480 responsibilities are not both transferred to IDCA, we should institute the improved coordination arrangement described at Tab A, which would streamline the maze of committees coordinating development assistance programs and ensure an integrated approach to the Congress about foreign aid programs. If IFI and PL-480 responsibilities are transferred to IDCA, a less ambitious coordination mechanism would suffice.

✓ Approve

Option #2: OMB accepts the coordination arrangements described at Tab A and recommends that, in addition, a White House coordinator be appointed to provide symbolic evidence of your interest and to deal with problems that fall between the cracks -- particularly problems that arise during this period of transition. State and AID are opposed, considering this an unnecessary complication and preferring to see coordination accomplished largely through arrangements in which the Administrator would play a central role. Domestic Policy Staff also opposes this course, arguing that it would not accomplish much and would add to the Executive Office staff.

________ Approve

7. Agreed Issues. There are a number of issues on which the PRC members are agreed:

a. A semi-autonomous Foundation for Technological Collaboration with developing countries should be set up in IDCA to improve US support for private and public research, in the US and LDCs, on problems of concern to developing countries. Details are at Tab B.

b. IDCA should be responsible for reviewing and advising on the policies and proposed budgets for all UN activities with development missions; activities financed by voluntary assessments would continue to be managed by State. This would involve modest change in the bill.

c. Changes should be sought in the bill to ensure that it does not interfere with existing security assistance programs.

d. Personnel transferring from AID to IDCA should be screened; this would require change in the bill. Everything possible should be done to fulfill your commitment that employees will not lose their jobs as a result of government reorganization.

?

e. An International Development Institute should be set up in IDCA to support the Peace Corps and Private Voluntary Organizations that assist LDCs, as provided in the bill.

f. The Overseas Private Investment Corporation should be transferred to IDCA, as provided in the bill.

Minimize independent or separate nature of the "Institute"

Brzezinski

~~CONFIDENTIAL~~ GDS

g. The Peace Corps should be transferred to IDCA with substantial autonomy (and should be named the International Development Service) -- if IDCA is created as a new agency and given substantial autonomy from State, as recommended in this memorandum.

___✓___ Approve all of the above

________ Disapprove items:

8. Next Steps. After you have made the above decisions, we will submit to you recommendations as to how to advise the Congress of your position. It is important that, in so doing, we be seen as responding positively to the Hill's perception of the need for a more effective and better coordinated aid program.

TAB B

THE WHITE HOUSE

WASHINGTON

September 27, 1978

Dear Clem,

Thanks for your letter of September 26, and for drawing my attention to Title III of the International Development and Food Assistance Act of 1978. I have noted particularly the language that you quote urging me to establish an International Development Cooperation Administration which would have primary responsibility for coordinating development-related activities and which would include the maximum range of U.S. agencies and programs.

As you know, I decided last year that there should be the kind of IDCA you have in mind. We are now considering how best to put this to the Congress. Meanwhile, we have improved coordination of development-related programs by establishing the Development Coordination Committee.

We will, of course, consult closely with authorizing committees and their staffs, as our work goes forward.

Thanks again for all your help. You and your committee have made a large contribution to the aid improvement we all want.

Sincerely,

The Honorable Clement J. Zablocki
Chairman
Committee on International Relations
U.S. House of Representatives
Washington, D.C. 20515

Congress of the United States
Committee on International Relations
House of Representatives
Washington, D.C. 20515

September 26, 1978

The Honorable Jimmy Carter
The President
The White House
Washington, D.C.

Dear Mr. President:

In connection with House passage on September 19, 1978 of the Conference Report on H.R. 12222, the International Development and Food Assistance Act of 1978, I wish to draw your attention to Title III of the new Act and its implementation. Title III represents a major element of the foreign aid reorganization proposal by the late Senator Hubert Humphrey which, as you know, has been studied and partially implemented by the Congress and by the Executive branch this year. The Title as approved in Conference includes sections on "Declaration of Objectives," on "Implementation of Objectives" in regard to coordination, and on "Report" which are virtually identical to these provisions as originally passed by the House.*

During the Conference on H.R. 12222, the Senate Conferees stated that, due to the press of other business before the Senate earlier this year, they had been unable to devote time to foreign aid reorganization questions. However, in agreeing to Title III, the Senate Conferees also agreed to the following directive in the Statement of Managers which closely reflects the substance of the relevant provision in the House bill:*

"The committee of conference urges the President to consider establishing an Inter-

*Attached

> national Development Cooperation Administration, to supersede the Agency for International Development, which would have, subject to the foreign policy guidance of the Secretary of State, primary responsibility within the U.S. Government for coordination of international development-related activities and which would have within its organizational framework the maximum possible range of U.S. Government agencies and programs related to international development."

In looking toward implementation of Title III, I wish to point out that: (1) the action by this Committee in approving the Title last April was designed to urge the Executive to move ahead with reorganization to achieve the objectives of the Title; (2) you had begun a reorganization process at the time, which has been continuing; and (3) at the House-Senate Conference on H.R. 12222, the Executive branch position was in favor of Title III as passed by the House with the sole exception of the word "directs," for which the Executive branch preferred the word "encourages."

Please be assured that the Members of the House are strongly committed to full implementation of Title III.

As you know the Committee staff has been consulting with members of your staff on this matter during the past year. Hopefully, those contacts and further consultations with authorizing committees will lead to prompt submission of a reorganization plan, consistent with the intent of Title III. We also understand that [illegible] is the intent of the Executive branch to continue to [illegible] with [illegible]thorizing committees with regard to [illegible] assistance authorizing legislation [illegible] submitted next year.

[illegible]ent, as usual I am prepared to assist in [illegible]y possible to improve the U.S. foreign assistance [illegible].

Hopefully, the impending reorganization as discussed above will provide a substantial framework for that improvement.

With best wishes, I remain

Sincerely yours,

Chairman

CJZ:lgd

Attachments

Attachment I

Following is the text of Title III of H.R. 12222 as approved in Conference:

TITLE III -- COORDINATION AND ADMINISTRATION OF THE DEVELOPMENT-RELATED PROGRAMS AND POLICIES OF THE UNITED STATES

Declaration of Objectives

Sec. 301. The Congress declares that the United States Government should place higher priority, in the formulation and implementation of governmental policies, on efforts to help meet the legitimate needs of poor countries for improving the quality of the lives of their populations. The Congress also declares that greater effectiveness and efficiency of United States assistance to such countries can be achieved through improved coordination and administrative consolidation.

Implementation of Objectives

Sec. 302. In furtherance of the objectives set forth in section 301, the Congress directs the President to institute a strengthened system of coordination of all United States economic policies which impact on the developing countries of the world, including but not limited to policies concerning international trade, commodity agreements, investment, debt, international financial institutions, international and multilateral development agencies and programs, and concessional and grant food assistance, in addition to policies concerning United States bilateral economic development assistance.

Report

Sec. 303. The President shall report to the Congress not later than February 1, 1979, on the steps he has taken to implement this title and on any further legislation which may be needed to achieve the objectives of this title.

Attachment II

Under H.R. 12222, as originally passed by the House, the President was directed:

> "(2) to establish an International Development Cooperation Administration, superseding the Agency for International Development, which will have, subject to the foreign policy guidance of the Secretary of State, primary responsibility within the United States Government for coordination of international development-related activities and which will have within its organizational framework the maximum possible range of United States Government agencies and programs related to international development."

BLUMENTHAL

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 26, 1979

MEMORANDUM FOR THE PRESIDENT

Subject: Aid Organization

You will soon receive a decision memorandum on the organizational structure of our foreign aid activities, giving you several options -- including a major reorganization of the activities now carried out by AID, State and Treasury into an International Development Cooperation Administration (IDCA). I am firmly convinced that the proposed changes offer no meaningful improvement in our aid performance. I therefore strongly oppose the proposals and want to give you my personal views on the issues. (I understand that Secretary Vance has written to you separately about the overall problems which a major reorganization would pose.)

The measures you approved last April already provide the flexibility to deal with the real issues in the development field. The AID Administrator, as chairman of the interagency Development Coordination Committee, (DCC), is already the Administration's principal spokesman on development, and capable of assuring proper coordination among U.S. development activities.

My primary concern is with the impact of the proposal to transfer responsibility for oversight of the multilateral development banks (MDBs) to a new IDCA. Moving beyond the present interagency cooperation to a major formal reorganization -- with all the dislocations one implies -- would have several substantial disadvantages:

-- By blurring the distinction between bilateral and multilateral aid, it would threaten the major gains we have made in Congress both in the substantially higher MDB appropriations of the past two years (72 percent for FY 1978, a further 35 percent for FY 1979), and in avoiding the kinds of country and commodity restrictions that could hobble our participation in the multilateral banks.

-- It would alienate many of the Administration's key aid supporters on the Hill, including Senators Inouye and Percy and Congressmen Obey and Conte, who strongly oppose any such changes.

-- No savings in personnel or overhead would result. (In fact it would cost a bit more.)

-- A major aid reorganization would be costly and disruptive and would threaten funding levels in what is expected to be an unfavorable legislative climate.

Close cooperation between AID and the development banks is important. AID can make a valuable contribution in analyzing MDB programs. While the current system provides for (and we have encouraged) active AID involvement in this area, I would not object to formalizing AID's responsibility for advising the U.S. Executive Directors at the MDBs. But I could not agree to his "instructing" them because this would totally undermine the position of the Secretary of the Treasury as U.S. Governor of the institutions.

Mike

W. Michael Blumenthal

VANCE

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	From Vance to The President (2 pp.) re:Foreign Assistance Organization /enclosed in Hutcheson to Brzezinski, Owen and McIntyre 2/13/79	2/13/79	A
memo	From Owen to The President (1 page) re: Foreign Aid Re-organization /enclosed in Hutcheson to Brzezinski, Owen and McIntyre	2/12/79	A

FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of the Staff Sec.- Pres. Handwriting File 2/13/79 [1] BOX 116

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OWEN

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
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ID 790126 THE WHITE HOUSE

WASHINGTON

DATE: 13 FEB 79

FOR ACTION: STU EIZENSTAT RICHARD PETTIGREW attached

Beckel - concur w/ Owen

INFO ONLY: THE VICE PRESIDENT JODY POWELL

JERRY RAFSHOON JACK WATSON

ANNE WEXLER

SUBJECT: MCINTYRE OWEN MEMO RE FOREIGN ASSISTANCE ORGANIZATION

++++++++++++++++++++ ++++++++++++++++++++ ++++++++++++++++++++

\+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

\+ BY: +

++++++++++++++++++++ ++++++++++++++++++++ ++++++++++++++++++++

ACTION REQUESTED: IMMEDIATE TURNAROUND

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

conf'd attachment

THE WHITE HOUSE

WASHINGTON

February 13, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Foreign Assistance Organization

There are only two issues on which I wish to express a preference.

1. Peace Corps

I argue strongly against inclusion of the Peace Corps in the new agency. Moving the Peace Corps would effectively end ACTION as a viable agency and would sever the Peace Corps' link with other domestic agencies dependent on voluntary service. The unique nature of the Peace Corps would be lost in the massive agency being created. The new agency would have a development thrust and the Peace Corps has a broader scope.

Politically, I think that it would be viewed as an attack on the Peace Corps to move it. It is true that the Peace Corps has come under criticism for inadequate management. This problem should be solved within the context of the current organizational structure rather than burying it in a large agency.

2. P.L. 480, Title III Decision

For the reasons noted in the memorandum I recommend that we maintain the current arrangements for making P.L. 480 decisions.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

February 12, 1979

MEMORANDUM

FOR: THE PRESIDENT

FROM: JAMES T. McINTYRE, JR. Jim

SUBJECT: Foreign Assistance Organization

The four basic choices of organizational format for foreign assistance set out in the attached memo each have important drawbacks. My preference is not to create a new agency, but to rely on an EOP Coordinator (option 3). If you feel your commitments require creating a new agency, I recommend you choose option 1 rather than 2 because option 1 produces a more reliable form of organization. If option 1 is chosen, it is particularly important that the IDCA budget be submitted to OMB directly, after consultation with State, rather than through State. This will enhance its stature and independence.

Attachment

THE WHITE HOUSE

WASHINGTON

February 13, 1979

MEMORANDUM TO: THE PRESIDENT

FROM: DICK PETTIGREW Dick

SUBJECT: McIntyre/Owen Memorandum re Foreign Assistance Organization

For the reasons stated, I would recommend:

1. With respect to the organizational decision, Option 1 as recommended in the memorandum (without State authority to submit budget).

2. With respect to multilateral development banks, I concur that the IDCA administrator or development coordinator is consulted in executive director selection and advises executive directors.

3. With respect to international organizations, I would recommend transfer to IDCA of lead responsibility for policy, programs and budget for those international organizations and programs whose purpose is primarily developmental.

4. With respect to PL 480, I recommend maintaining current arrangements.

5. With respect to the Peace Corps, I recommend transfer of the Peace Corps to IDCA with autonomy within it.

My approach to this reorganization is that an IDCA as recommended would simplify rather than further complicate development assistance administration and related activities. The Peace Corps transfer would be popular with the public. The transfer would bring it closer to development activities abroad and give it greater visibility and prestige.

THE PRESIDENT'S SCHEDULE

Tuesday - February 13, 1979

8:15	Dr. Zbigniew Brzezinski - The Oval Office.
9:30	Mr. Frank Moore - The Oval Office.
9:45 (20 min.)	Meeting with Senators Jennings Randolph and Robert Byrd and Congressman Harley Staggers. (Mr. Frank Moore) - Oval Office.
10:30 (20 min.)	Meeting with Congressmen Charles B. Rangel and Henry A. Waxman. (Mr. Frank Moore). The Oval Office.
11:00	Mr. Jody Powell - The Oval Office.
11:30 (30 min.)	Admiral Stansfield Turner, Dr. Zbigniew Brzezinski, and Mr. Hamilton Jordan. The Oval Office.
12:00 (5 min.)	Meeting with Mr. Elie Wiesel, Chairman, Commission on the Holocaust. (Mr. Ed Sanders) - The Oval Office.

THE WHITE HOUSE

WASHINGTON

November 22, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Gilligan Memo Regarding Foreign Aid Reorganization Plan

I support the general thrust of the proposed reorganization with one exception -- the proposal to include the Peace Corps.

While the Peace Corps does have the goal of promoting development abroad, its volunteer nature sets it apart from the other programs to be included in the new agency. I am concerned that by being submerged in such a large agency the Peace Corps will lose its identity in the United States and the developing world.

By being a part of ACTION its volunteer facet is emphasized and the Peace Corps is provided a good argument for those abroad concerned that it will have a paternalistic mission -- namely, that it is simply the international component of the volunteer activity that ACTION performs in the United States.

5/

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

RL

THE ADMINISTRATOR

November 1, 1978

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Foreign Aid Reorganization Plan

As I promised in the annual aid policy statement which I submitted to you on October 24, attached is our proposal for reorganizing the foreign aid program to achieve greater administrative coherence, effectiveness and efficiency.

This proposal--which provides for the establishment of an International Development Cooperation Administration composed of programs which are today administered by a number of different U.S. Government departments and agencies--constitutes the first major aid reorganization since the establishment of the Agency for International Development during the Kennedy Administration.

The proposal reflects the spirit of the Humphrey-Zablocki Bill of last year and encompasses decisions you have already made with regard to improving aid coordination and establishment of a Foundation for International Technological Cooperation. The proposed reorganization is long overdue and will contribute significantly to improvement of U.S. relations with the developing world.

I therefore urge your approval of this proposal and its submission to Congress early in the upcoming legislative session. We are now working with the Office of Management and Budget to ensure appropriate handling.

John J Gilligan

John J. Gilligan

Attachment

CONFIDENTIAL

29-

~~CONFIDENTIAL GDS~~

THE WHITE HOUSE

WASHINGTON

6493 add-on

INFORMATION

November 28, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN HO

SUBJECT: Jack Gilligan's Aid Report

Jack Gilligan has submitted to you ~~(Tab A)~~ the first annual policy statement that you asked him to prepare in his capacity as aid coordinator. In case you don't have time to read it, here is a summary:

1. Allocation of Aid. The report focuses, in good part, on the distinction between two categories of developing countries:

-- The middle-income developing countries (largely in Latin America) have per capita incomes somewhat under $1000, which will rise by about the same rate as OECD countries. These countries can meet their needs for external capital largely from multilateral bank loans, commercial loans, and private investment.

-- The poor countries (largely in South Asia and Africa) have per capita incomes in the low hundreds, which will not rise far above this by 1985. These countries cannot secure hard or commercial loans, or private investment, as readily as middle-income countries; their needs can only be met by concessional aid, from both multilateral banks and bilateral donors.

This analysis underlines the need to direct our limited development concessional aid primarily to poor countries. This is the policy that you approved last year and that we are generally following. To do it, we have to fight off periodic pressures from our embassies to use undue amounts of concessional aid to placate the governments of middle-income countries.

2. Aid Levels and Organization. For the rest, the report emphasizes two issues:

-- If we don't fulfill the FY 1982 goal that you approved of $10 billion in US bilateral and multilateral concessional aid, we fall even lower than our present ranking of 13th among donor nations.

-- Reorganizing aid by creating an international Development Cooperation Administration and a Foundation for International Technological Cooperation will improve aid effectiveness and respond to Congressional concerns.

Both these issues will come to you soon for decision.

~~CONFIDENTIAL~~ GDS

~~CONFIDENTIAL~~ Jay 4/5/80

12:00 noon

THE WHITE HOUSE

WASHINGTON

February 12, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: EDWARD SANDERS Ed

SUBJECT: Meeting with Elie Wiesel, Chairman of the President's Commission on the Holocaust, Oval Office, Tuesday, February 13, 1979, 12:00 p.m.

I. PURPOSE

To meet the Chairman of the President's Commission on the Holocaust prior to the first meeting of the Commission on Thursday, February 15, for a brief exchange of views.

II. BACKGROUND, PARTICIPANTS AND PRESS

A. Background: The Commission will hold its first meeting on Thursday, February 15, to carry out its primary mandate, which is to make recommendations to you with respect to the establishment and maintenance of an appropriate memorial to those who perished in the Holocaust. In addition, the Commission will recommend appropriate ways for the nation to commemorate April 28 and 29, 1979, which the Congress has resolved shall be "Days of Remembrance of Victims of the Holocaust."

The Chairman of the Commission, Elie Wiesel, is a concentration camp survivor, author of some sixteen works of fiction and non-fiction, Andrew Mellon Distinguished Professor of the Humanities at Boston University and considered by many as the leading moral and theological figure of American Jewry.

Since you will be in Mexico at the time of the Commission meeting, it is desirable that the Chairman of the Commission have the opportunity to visit briefly with you, so that he can pass on any thoughts you may wish to convey to the other members of the Commission.

B. Participants: Elie Wiesel

White House Staff: Edward Sanders

C. Press: White House Photographer

THE WHITE HOUSE
WASHINGTON

2/13/79

Bob Lipshutz

The attached was returned in the President's outb x today and is forwarded to you for your information.

Rick Hutcheson

Bob
info
J

New photointerpretation illuminates a grim chapter of history.

THE HOLOCAUST REVISITED: A RETROSPECTIVE ANALYSIS OF THE AUSCHWITZ-BIRKENAU EXTERMINATION COMPLEX

Dino A. Brugioni and Robert G. Poirier

The authors have been strong advocates of the application of aerial photography to historical research and analysis. Our convictions about the utility of this medium to the professional historian have been strengthened as we became increasingly aware of the many historical problems to which the exploitation of aerial photography can contribute an added dimension. In this paper, we attempt to demonstrate the application of aerial photography to a historiographical problem.

Our interest in the subject of Nazi concentration camps was rekindled by the television presentation "Holocaust." In the more than thirty years since VE Day, 8 May 1945, much has happened to these camps. Some, like Treblinka, have been completely obliterated; others, such as Dachau and Auschwitz, have been partially preserved as memorials.

Aerial reconnaissance was an important intelligence tool and played a significant role in World War II. We wondered whether any aerial photography of these camps had been acquired and preserved in government records. If imagery was available, we thought it likely that the many sophisticated advances in optical viewing, and the equipment and techniques of photographic interpretation developed at the National Photographic Interpretation Center (NPIC) in recent years would enable us to extract more information than could have been derived during World War II.

We had a number of advantages not available to the World War II photographic interpreters. Instead of 7X tube magnifiers, we had micro-stereoscopes. Our modern laboratory photo-enlargers were vastly superior to those available to earlier interpreters. While the World War II photointerpreter performed his analysis by examining paper prints, we would use duplicate film positives allowing detailed examination of any activity recorded on the film. The present day imagery analyst also has the advantage of years of training and experience, while the World War II photointerpreter was extremely limited in both. Most importantly, for this project, we have the advantage of hindsight and abundant eyewitness accounts and investigative reports on these camps.[1] We therefore had the opportunity to study the subject from a unique perspective.

We faced two immediate problems as we began our investigation. We knew that the cameras carried by World War II reconnaissance aircraft were limited to about 150 exposures of Super-XX Aerocon film per camera and that this film resolved about 35 lines per millimeter. The film was exposed at "point" rather than "area" targets

[1] The "intelligence collateral" for this paper was drawn mainly from O. Kraus and E. Kulka, *The Death Factory*, New York, 1966; N. Levin, *The Holocaust*, New York, 1973; and the official Polish government investigations, *German Crimes in Poland*, 2 Vols., Warsaw, 1946-47, which draw on primary sources.

THE WHITE HOUSE
WASHINGTON

2/13/79

Tim Kraft

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

February 10, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: TIM KRAFT TK

SUBJECT: Agency Liaison Work Plan, February/March 1979

This work plan grows out of our 1/24/79 meeting with you to discuss my "Initial Agency Liaison Report". The work between now and 3/31/79 breaks down into two main segments, Phase I Follow-up and Phase II.

Phase I Follow-up

This responds to your request for supporting background memos when you meet individually with the Cabinet Secretaries to discuss managerial problems within their Departments. These memos will be two to three pages in length and will provide deeper analyses of specific situations than was possible in the initial report.

There are five high priority Departments (Energy, Treasury, Labor, Commerce, and Agriculture) and two of lesser priority (HEW and State). Five others require little or no further work (Interior, HUD, Transportation, Defense, Justice). We plan to do full background memos on the initial seven and more cursory ones on the final five.

We have conducted several interviews and expect to have the rest of the Phase I Follow-up interviews scheduled by Friday, February 9th. We plan to submit our first background memo to you by Monday, February 19th; it concerns the Department of Energy. We will work with Phil Wise to schedule your meetings with the Cabinet Secretaries to follow closely after the submission of the individual memos to you. A meeting with Jim Schlesinger would be appropriate any time after February 19th. We plan to complete our Phase I Follow-up memos by March 9th.

Phase II

Phase II involves doing the same kind of study with the non-Cabinet agencies as we did in Phase I with the Cabinet Departments. We believe that the following agencies are important enough to include in the Phase II work:

1. ACTION
2. VA
3. CSA
4. AID
5. EPA
6. Ex-Im Bank
7. ICA
8. NASA
9. OPIC
10. Appalachian Regional Commission
11. SBA
12. GSA
13. NEA
14. NEH

Proceed with Selected Agencies:

✓ YES ________ NO ADD ______________________________

DELETE ______________________________

J

Since arranging the appropriate interviews is time-consuming, we are working concurrently on Phase II and on Phase I Follow-up. Responding to your request of January 24th, we will put priority emphasis on the ACTION portion of the Phase II work. We hope to meet with Mrs. Carter on ACTION on Friday, February 23rd and hope to have our report to you on that agency by March 1st. We plan to have the balance of our Phase II report by March 31st.

CONFIDENTIAL

CONFIDENTIAL

INFORMATION

THE WHITE HOUSE

WASHINGTON

February 12, 1979

DECLASSIFIED
Per; Rac Project
ESDN; NLC-126-16-19-1-3
BY KS NARA, DATE 7/9/13

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN HO

SUBJECT: Foreign Aid Reorganization (U)

1. There are two foreign aid reorganization problems: one political, and the other substantive (U)

2. Political: Members of Congress and outside private groups on whom we rely to lead the fight for AID believe that Jack Gilligan's departure was prompted by a desire to subordinate development aid to short-term foreign policy concerns. We can meet this problem by:

a. proposing to the Congress either of the schemes for an International Development Cooperation Administration described in the memo that Jim McIntyre and I are sending you;

b. providing, as proposed in this memo, that the IDCA budget come to OMB after consultation with the Secretary of State -- rather than via the Secretary, who would make such changes in it as he saw fit. Aid supporters on the Hill oppose the latter option; this issue has acquired major symbolic importance. (C)

3. Substantive: We need both to improve AID efficiency and to improve coordination between bilateral and multilateral aid. Both needs are better met by the IDCA option that gives the IDCA Administrator budget and policy authority over AID and other aid programs than by the option that makes the IDCA Administrator administratively responsible for AID. (C)

a. An Administrator who controls budget and policy will be in a better position to insist on needed large changes in AID's methods of doing business than one who gets embroiled in the details of AID administration and hence gets carried along by the momentum of existing procedures. (C)

b. An Administrator who is not perceived as also being head of AID will be in a better position to carry out his coordinating responsibilities, both because he will have more time for this purpose and because he will be more readily accepted as a disinterested coordinator by elements of the official and private aid community outside AID.

This explains why both Jack Gilligan and David Bell, who was head of AID from 1962 to 1966 (and is now Vice President of the Ford Foundation), favor giving the IDCA Administrator budget and policy, rather than administrative, authority over AID -- as do Frank Press and I. (C)

~~CONFIDENTIAL~~
Review on February 12, 1985

CONFIDENTIAL

CONFIDENTIAL

THE SECRETARY OF STATE
WASHINGTON

February 13, 1979

C

MEMORANDUM FOR: THE PRESIDENT

FROM: Cyrus Vance CV

SUBJECT: Foreign Assistance Organization

A memorandum on organization of our foreign assistance programs will soon be reaching you from Jim McIntyre.

One option is essentially to continue on the path you indicated last spring, a modest consolidation of AID with several other assistance programs in an International Development Cooperation Administration, and a stronger coordinating role for the head of this new agency. This makes sense because it should improve both management and coordination.

Another option is to establish a development coordinator in the Executive Office of the President. Last year this attracted so little support from the PRC that it was not even sent to you for consideration. I believe it would complicate our management problems, cause some opposition on the Hill, and expand the EOP. I recommend against it.

A new middle option is a hybrid of the other two, with the head of IDCA having very limited authority over AID, the major element of his agency. A floating arrangement of this kind is not likely to produce stronger coordination. And the vague division of responsibility would exacerbate the management problems we are trying to solve. Uncertain responsibility would also make it difficult to get someone of the highest caliber to head either IDCA or AID.

CONFIDENTIAL

GDS 2/13/85

One of the main arguments for this option is that the head of IDCA cannot be an effective coordinator of development assistance programs generally if he is also responsible for managing our bilateral program in AID. I believe you rejected essentially the same argument when you decided that Admiral Turner would be the DCI and also head the CIA.

Three other issues concern me particularly.

-- Moving responsibility for the multilateral banks from Treasury to the new agency is unnecessary, would be disruptive, and could be damaging on the Hill. (I do think the influence of the IDCA Administrator over the banks should be enhanced, as the OMB memorandum indicates.)

-- Moving responsibility for those UN programs that emphasize development more than other purposes from State to the new agency would be complex and confusing. We are gradually tightening our management of participation in the UN system, and dividing responsibility now would be a definite setback.

-- The present budget relationship, from AID through State to OMB, works well and should not be changed. If the IDCA budget does not go through State, it would be much harder for us to analyze regional trade-offs between development aid programs and other forms of assistance, such as SSA. The system worked well this year.

In short, I urge you to approve the "IDCA with full authority" option, which would enhance effectiveness and be consistent with your decision of last spring. This leaves the main responsibility for the multilateral banks in Treasury but gives more influence over the banks to the head of IDCA than the AID Administrator presently has. It is a modest but constructive step that avoids the uncertainties and layering in the other two approaches.

THE WHITE HOUSE
WASHINGTON

FOR THE RECORD:

Copies of the attached were given to Brzezinski and Rafshoon on 2/13/79 - the day returned from the President

MEMORANDUM

Peace is paramount
Strong defense necessary

THE WHITE HOUSE

WASHINGTON

February 12, 1979

ok - Let Warnke help
J

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI ZB
JERRY RAFSHOON JR

SUBJECT: Georgia Tech Speech

You have indicated that you want your speech at Georgia Tech to be a major statement on SALT. We have attached an outline of a proposed speech.

The SALT debate will go on for a long time and cover a lot of substantive ground. It is important that, in this speech, we focus on a clear and attainable objective and not attempt to say everything there is to say on the subject. We believe that that objective should be to frame the terms of the SALT debate. Therefore, the speech should be simple and tightly organized. It should enumerate and state the questions that must be answered in the course of the debate. It should briefly state our thematic answers to each of these questions. Finally, it should have the effect of making the opposition respond to our arguments on our terms at least for a while.

The four questions that should be posed and answered are:

1. Why do we need a strategic arms limitation treaty? This is the most important question and the answer to it is our most persuasive argument. The answer needs to put SALT into the broad context of our foreign and national security policies. The 80% positive public attitude on SALT is probably related to this question. It is the one that the opposition will try to avoid discussing because it is very difficult to attack the SALT process in general. We should begin early to stress this theme and develop it at every opportunity.

2. How is SALT related to our overall defense strategy? This is another area where our case is relatively strong. The 3% real increase in the defense budget can be used to good effect. We must make the point that SALT enhances our defense

Worked closely c DoD, JCS, etc

capability. Our strong defense of NATO is relevant. There are early indications that this is another area that the opposition would prefer to stay clear of. We should force them to recognize this as a major element of the debate.

3. Can we verify a SALT treaty? This is one of the points that the opposition apparently feels favors their case. We should answer as many of the questions that have been raised as possible. Although it will probably be necessary to deliver a separate verification speech later we must begin to develop out themes and arguments on this early. The arguments of our opponents have already received wide circulation.

4. What about SALT and linkage with other issues? Or, how does SALT fit into our over-all policy toward the Soviet Union? This is the other area where the opposition seems to feel that their strength lies. We should lay out the case against non-germane linkage. That case can be made very convincingly but, so far, has not been.

After each of these questions has been dealt with there should be a strong and somewhat visionary conclusion reminding the audience of the stakes involved. We should not overstate our case nor should we allow people to forget the consequences of "leaving the path of rational arms control."

SALT and U.S. Security

Basic Theme: SALT II is a critical part of U.S. foreign policy and national security planning.

-- SALT II is the next step in the vitally important process of slowing, then reversing the strategic arms race. It is part of, not a substitute for a strong defense.

-- SALT II maintains the stability of the U.S. Soviet strategic balance and the strength of our nuclear deterrent.

-- SALT II is based on neither sentiment nor trust. It will be verifiable.

Introduction -- The U.S. Role in the World

-- We are the most powerful nation in the world; politically, economically, militarily.

-- We have a special role and responsibility as the leading nation in the free world; to use our power to maintain our security and freedom and that of our allies; to advance and protect our interests; to restrain and counter military and political threats to these interests and to the stable world order we seek.

-- We live in a rapidly changing world; one where there are more risks and uncertainities, but where there are also many opportunities. We seek to contribute to a world where people of all nations can live in peace, with wider international cooperation; enhanced stability and security; a recognition of the aspirations of every nation to be respected; diversity and pluralism; new participants in international decisions; and greater recognition of human values and rights.

-- The most critical issue in world affairs continues to be the relationship between the U.S. and the Soviet Union. We will continue to be in competition for as far ahead as we can see. Our responsibility is to also widen the areas of cooperation between us -- especially in those areas that are vital to world peace.

I. Why do we need a Strategic Arms Limitation Treaty?

-- The most critical area of competition between the U.S. and Soviet Union is in the development of strategic weapons. Maintenance of our strategic forces and a strong deterrence is key to our national security.

-- Restraint of that competition is the most crucial area in which we and the Soviets can find the basis for cooperation.

-- The U.S. and U.S.S.R. began to move toward negotiated restraint in the strategic arms race ten years ago. SALT I was the first step toward stabilizing the strategic balance between the U.S. and Soviet Union and reducing the risk of catastrophic nuclear war by putting a cap on the nuclear arms race. ABM treaty and Interim Agreement.

-- SALT II, which has been under negotiation for six years, under three administration, carries the process a step further by beginning to even out the strategic forces of both sides and to restrain technological advances that threaten the balance. Description of key elements.

-- The SALT process is also the foundation for building an enduring political relationship with the Soviets which reduces tensions, and sets important, visible boundaries to our ideological, political and military competition.

-- A sound SALT agreement is in both sides' national interest. And it is a part of, not a substitute for, a strong national defense.

II. How is SALT related to our overall defense strategy?

-- A strong, balanced defense is the necessary condition for our security and the success of our foreign policy.

-- We are strong militarily but we cannot ignore advances in Soviet military power since the 1960s. It is not the current balance, but the momentum of Soviet strategic programs that cause us concern.

-- Despite Soviet accomplishments, the Soviet Union does not enjoy a military advantage. It is not in a position to exploit its strategic weapons or embark on a course that may lead to the use of nuclear weapons without encountering unacceptable risks.

-- A strategic balance exists today because U.S. deterrent forces remain essentially equivalent to those of the U.S.S.R. While they may lead in some areas, we lead in many others (list).

-- In light of these circumstances, we are pursuing two complementary courses of action: continued modernization of our strategic forces (FY 80 budget); and further specific and verifiable provisions limiting further strategic arms competition (SALT II).

-- The defense budget includes vital programs to ensure that our deterrent maintains essential equivalence -- Trident, Cruise, MX. SALT II will not limit our plans for development of any of these systems.

-- SALT II will help maintain the stability and deterrence brought about by rough equivalence. It will establish equal levels of strategic systems; require the destruction of 250 Soviet systems; put a limit on Soviet MIRVed ICBMs; provide more certainty about the direction of Soviet strategic planning.

III. Can we verify a SALT treaty?

-- SALT II is not based on trust. It will be verifiable and based on the assurance that the sophisticated means we use to detect cheating are adequate and protected.

-- Our judgment as to whether it is verifiable is based primarily on the capability of our National Technical Means of verification -- including reconnaissance satellites -- and on our ability to respond quickly to any possible violations.

-- SALT II contains specific provisions which protect our verification procedures and provide us with greater assurance of their accuracy. We will be assured that if any cheating did occur, it would be detected and responded to long before it could have any effect on the strategic balance.

IV. What about linkage to other issues?

-- We will maintain a strong defense and always be prepared to respond appropriately to Soviet actions, but we don't expect strategic arms control -- a goal that is sought by both nations in the interest of a safer, more stable world -- to influence Soviet or American conduct in other areas.

-- SALT is a limited but critical strategic accommodation with the U.S.S.R. in one area of competition.

-- SALT does not and cannot mean an end to all competition with the Soviet Union or a final breakthrough toward expanded cooperation.

-- We cannot link SALT to other areas of competition. This would mean that we could settle nothing with the Soviets unless we settled everything. This is a policy of paralysis not progress. It would kill the SALT process.

-- We neither accept such linkage nor will we let the Soviets impose it on us. We will not mortgage our policies toward China, or our ability to react to Soviet behavior in other areas, by concluding and ratifying SALT. Without linkage, we have the right and the obligation to respond strongly to any Soviet behavior that adversely affects our interests.

Conclusion

-- SALT has become part of the fabric of international relations. It is an element of stability both in military terms and in the worldwide political balance. We stand on the threshold of an agreement that continues us on the path of strategic cooperation and rational arms control.

-- The consequences of leaving that path are: an expensive and dangerous new arms race with no net gain for either side; less stability in U.S./Soviet relations; more uncertainty about the future of Soviet strategic planning; less confidence in our ability to monitor Soviet strategic activities; and threat to our ability to provide for NATO and conventional force needs; and more nuclear weapons in the world, and consequently more risk for us and our children of nuclear catastrophe.

-- SALT alone cannot end the competition between us. Nor can it fulfill all our hopes for cooperation. But it is vital to the wise and stable management of both aspects of our relationship.

A SALT treaty (ratified) will help us to:
Control proliferation of nuclear explosives
reduce traffic in conventional arms
maintain U.S. posture as a nation working for peace
satisfy desires of our Allies - & other nations
shift available defense effort to build worldwide US influence for peace
provide basis for improved relations with USSR on other issues

THE WHITE HOUSE
WASHINGTON

2/13/79

Jack Watson

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Tim Kraft

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION -

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

ACTION	FYI	
		VICE PRESIDENT
		EIZENSTAT
		JORDAN
	✓	KRAFT
		LIPSHUTZ
		MOORE
		POWELL
✓		WATSON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE

		ADAMS
		ANDRUS
		BELL
		BERGLAND
		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARAGON
		BOURNE
		BUTLER
		H. CARTER
		CLOUGH
		COSTANZA
		CRUIKSHANK
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HUTCHESON
		JAGODA
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		PRESS
		RAFSHOON
		SCHNEIDERS
		VOORDE
		WARREN
		WISE

THE WHITE HOUSE

WASHINGTON

February 12, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON Jack

SUBJECT: Designation of the Federal Regional Council Chairperson in Boston

As you recall, you recently designated nine Federal Regional Council Chairpersons. We have now negotiated for the tenth chairperson, who will serve in Boston. In accordance with your decision to allow the Title V Commission Federal Co-Chairperson to serve jointly as Federal Regional Council Chairperson, OMB, Tim Kraft and I have consulted the six governors involved and arranged for Joe Grandmaison to serve in this capacity.

Your approval will designate him as Federal Regional Council Chairperson in addition to his role as head of the Title V Commission in the Boston region.

APPROVE ✓ J

DO NOT APPROVE ____________

THE WHITE HOUSE
WASHINGTON

2/13/79

Stu Eizenstat

The attached was returned in the President's outbox today and is forwarded to you for appropriate handlingn.

Please notify others of President's decision.

Rick Hutcheson

15.1 Stu
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THE WHITE HOUSE

WASHINGTON

February 9, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT Lynn

SUBJECT: Sugar Policy

BACKGROUND

The Food and Agriculture Act of 1977 mandated, against our objections, a price support loan program for sugar for the 1977 and 1978 crops. The Administration had attempted to establish a program involving lower market prices augmented by direct payments to domestic producers, but this was unacceptable to the Congress. Efforts were made last year, with the Administration's cooperation, to replace this authority with new sugar legislation covering 1978 and subsequent crops. In the final hours of the 95th Congress, after the Senate had passed the bill which we negotiated with Senator Long and supported, the House rejected it by a narrow margin. This bill had a 15¢ market price in 1978 and 15.8¢ in 1979.

You will recall, in late October following the adjournment of Congress you notified Senators Long and Stone, and Congressmen Ullman and Foley that you would support expeditious enactment of non-inflationary sugar legislation in the new session of Congress and, in turn, asked for their support of prompt ratification of the International Sugar Agreement (ISA). At the same time, you agreed to support the market price at 15 cents per pound for the remainder of the 1978 crop year. This is the market price that would have been established by the defeated bill for 1978 and to which the Administration had agreed. This was achieved through a proclamation you signed December 28th, providing for an import fee consistent with that level of support. In addition, you signed a proclamation limiting imports from countries not members of the ISA in order to reaffirm our support for the Agreement and to signal our intention to pursue Senate ratification.

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The sugar industry is anxious to enact a new sugar bill. Their attitude is somewhat more cooperative than last year. Most are now talking in terms of a 16¢ support level for 1979; last year they were calling for 17¢ for the 1978 crop. It would appear that Administration approval is required for passage of sugar legislation. Producers, with the support of Senator Long and some other influential Senators and Congressmen, are hoping that the Administration will take the lead in fashioning an acceptable proposal. We have established some momentum in that direction through a series of meetings with representatives of producers, consumers, and labor.

Since there is strong Congressional interest in resolving this issue, members of Congress are likely to propose legislation soon regardless of what the Administration does. Thus, whether or not enactment of legislation is found to be important to the Administration, it will be advantageous to establish our position as soon as possible.

However, enactment of acceptable legislation is important because without it the ISA cannot be ratified and we would not be able to protect the 15¢ price which you promised and which we are now protecting, if world prices fall below current levels (7½ cents per pound).

Subsequent to last year's failure to enact sugar legislation, the Administration announced the wage and price guidelines program and declared the anti-inflation effort to be its first domestic priority. In this regard, statements were made to consumers, to organized labor, and to other public interest groups about our desire to mount a special attack on inflation in the cost of food.

MARKET SITUATION

World sugar stocks remain large, about 31 million metric tons or the equivalent of 35 percent of consumption. Although world production has fallen slightly from the high levels of 1977-78, production continues to exceed use. Thus, world prices remain low, in the vicinity of 7½ cents, about half the level mandated in the U.S. by government programs. A further fall-off in world production in 1979-80 will be required before these prices can be expected to materially strengthen. Although it cannot be known whether this will occur, the January planting intentions report indicated an 11 percent reduction in domestic sugar beet acreage in 1979, suggesting that some reductions will probably occur.

MAJOR CONSIDERATIONS

Long-Term Policy Objectives. The central issue here is the extent to which domestic producers are to be protected from lower cost foreign imports, and how much of the protection should take the form of a supported market price and how much direct payments to processors. U.S. sugar programs over the past 30 years have resulted in a relatively stable level of sugar imports, averaging about 5.3 million tons per year since 1960, although the 0.8 million ton decline in imports from Puerto Rico since 1960 has permitted significant growth in imports from other countries. The 50 percent market growth that has occurred over this period has been captured by the domestic industry. Thus, our dependence on imports has slowly declined. Although domestic prices have remained relatively stable over the past 25 years, except during 1974-75, U.S. policies have kept domestic prices about double world prices, as they are at present.

In the last few years, there has been a fundamental change in the situation due to the introduction of high fructose corn syrup (HFCS). This product is a close substitute for liquid sugar and the rapid growth in its production in recent years has resulted in a slight decline in sugar use. This displacement of sugar by substitute sweeteners is expected to continue over the next few years. To the extent the price of sugar is supported near the full cost of production (estimated at 15.1 cents in 1978 and 16.3 cents in 1979), this displacement will be more rapid and, in the short-term, would be at the expense of imports.

Conversely, to the extent prices are supported below this level, the displacement of sugar by corn sweetners will occur more gradually with most of the adjustment taking place domestically as U.S. produced corn sweetners replace U.S. produced sugar.

There are approximately 13,000 sugar producers in the United States. Many of these producers would switch to alternative crops if government support policies were aimed, over time, at bringing the domestic price of sugar more in line with the world price. A fundamental question behind this decision is whether that result should be a long-term goal of our sugar policy, and if so the speed of that adjustment. This adjustment will itself potentially lead to additional budget expenses through unemployment compensation and welfare payments.

The Issue of Legislation. There are two arguments for seeking sugar legislation. First, legislation would provide needed certainty to U.S. and foreign producers regarding the level of future price protection. This is now lacking.

Second, legislation would facilitate Senate ratification of the ISA. We participated actively in negotiation of the agreement and generally feel that it offers the best hope for adding needed stability to the world market. Our commitment to the ISA represents a policy of solving sugar problems together with other sugar producing countries rather than shifting the burden to them. Failure to ratify would adversely affect our relations with the other signatory nations, many of which are developing countries. Latin American countries would feel the impact most strongly.

Failure to achieve ratification of the ISA would almost certainly result in the agreement coming apart. In the near term, this would in all likelihood result in a significant decline in the earnings of developing countries. Also, the sudden release of ISA stocks could well create unstable world sugar market conditions. Over the long-term, we would lose the price moderating effects of the ISA. The world sugar price cycle would operate again, perhaps bringing much higher prices for U.S. and world sugar within several years.

Senator Church has held up ratification of the ISA pending the development of sugar legislation. It is clear the ISA will not be ratified in the absence of sugar legislation. Although producer groups are generally supportive of the ISA, they are not strongly supportive.

Also, without new legislation, import fees imposed under Section 22 would continue to be limited to 50 percent ad valorem. If the world price were to fall below its current level of 7.5 cents, we would not be able to maintain the domestic price at 15 cents using duties and fees. New legislation could remove this constraint.

The main argument against seeking major legislation is that it may well result in higher domestic prices than necessary or desirable. We already have authority to operate a price or income support program for sugar producers, and, particularly if a market price support level of 15 cents or below is chosen, we do not need additional legislation to administer a sugar program. However, current authority is somewhat less flexible than would be new legislation.

<u>Inflation</u>. The position we take on the market support price for raw sugar will be taken by some as a sign of the Administration's seriousness in dealing with inflation. For every 1 cent increase in the market price of sugar:

-- $250 to $300 million is added to direct consumer food expenditures (an additional unknown amount is added indirectly through wage escalators and other means);

-- $20 million is added to government expenditures (for programs tied to the CPI);

This causes the food CPI to increase by about .12 percent and the total CPI to increase by about .03 percent.

Food prices, which increased by 12 percent last year, are one of the most sensitive and visible aspects of the inflation problem. Moroever, in many ways sugar represents a classic and highly visible example of government regulation that is itself inflationary. Not only have domestic support prices been set greatly in excess of world prices, but government policies have caused domestic prices to rise significantly over the past few months. The current 15 cent market support price, for example, is more than 25 percent above the price that prevailed in December 1977, just before import fees were imposed to protect the de la Garza price support program.

Last year we proposed the use of direct payments to provide income support to sugar producers, as we do for producers of other major field crops, thereby allowing prices to be set by market forces. However, large producers fear that payment ceilings will be imposed if payments are used and corn producers generally oppose the use of payments altogether. It might be possible to get Congress to accept a payment of up to ½ cent per pound, however. Direct payments could be used in each year of the program, or they could be used as a transitional measure during the period when the anti-inflation program is in effect or while other long-term goals are being accomplished.

The COWPS argues that the anti-inflation guidelines, while not directly applicable to this issue, can be applied. The maximum price consistent with the guidelines depends on one's assumption of transportation costs from Caribbean ports to ~~New York~~; however, COWPS estimates that a 1979 crop price of 15.35 cents is the limit allowable under the guidelines.

Such a position would be a reversal of the position we took in the legislation last year. The fact that we were supporting last year's levels, with no additional increase, might blunt any negative arguments regarding inflation.

Administration Position Last Year. Last year Congress and the sweetener industry took the initiative in seeking sugar legislation, and positions polarized very early in the process. Our initial proposal last year contained two major provisions: a market price of 13.5 cents, not to be escalated in the future; and a target (or "established") price based on USDA's partial cost of production estimate, which for 1978 was 14.1 cents and for 1979 is 15.2 cents. The difference between the market price and the target price would have been made up by direct payments. We subsequently supported a proposed market price of 15 cents for the 1978 crop. Producer interests advocated a level of support around 17 cents with no direct payments.

In an effort to break the deadlock that resulted from the passage of divergent bills in the House and the Senate, and to achieve passage of the contervailing duty waiver extension that had been attached to the sugar bill, we offered the conferees two new options:

	Oct.-Sep. Crop Year		
	1978	1979	1980
	¢/lb., raw, N.Y.		
A. Market Price	15.0	15.5	16.0
Payment	0.75	1.0	1.0
Total	15.75	16.5	17.0
B. Market Price	15.0	15.8	
Payment	0.75	0.82	
Total	15.75	16.62	

Under option B, the price increase for the 1979 crop was thought to equal the 5.5 percent allowable under the then existing inflation program, given the 1978 base level that was proposed. The industry countered with the following proposal, which reflected their objection to the payments approach:

	1978	1979	1980
Market Price	15.25	16.12	17.03
Payment	0.5	0.5	0.5
Total	15.75	16.62	17.53

What finally emerged from the conference, with our support, was the following interim measure, which the conference report indicated would have to be reconsidered in 1979.

	1978	1979	1980
Market Price	15.0	15.8	+1% each year
Payment	0.75	-	-
Total	15.75	15.8	15.96

Having agreed to a program that would have provided a support price of 15.8 cents for 1979, one question is how difficult it might be for the Administration now to propose a lower level.

Political Considerations. It is generally recognized that enactment of legislation will require Administration approval. It is doubtful that the House would pass legislation which the Administration opposed. And if they did, it is highly unlikely that they could override a veto. Nevertheless, several key members, including Senators Long and Church and Congressmen Foley and Ullman, are eager to see legislation passed and will be pressing hard for our support. Congressman Foley is now circulating draft legislation for comment and will probably introduce it next week. Foley's proposal, incidentally, calls for a 1978 crop year market price of 15.25 cents plus a payment of 0.5 cents. The market price objective would be adjusted annually by the percent change in nonland costs of production, not to exceed 7 percent. For 1979, this would probably yield a market price of around 16.2 cents. Senator Long has shared with us a proposal developed by Louisiana cane producers. It would set a 1979 market price of 15.86 cents that would be escalated by 5 3/4 percent per year. In addition, it would provide for payments of 0.3 to 0.8 cents, depending on size, and a backup loan program.

Politically, it will be difficult to achieve enthusiastic support from any quarter. Producers will probably accept something in the 15.8 to 16.0 cent range, although grudgingly. Corn sweetener manufacturers will accept this too, although they will rebel at the inclusion of payments, if they exceed 0.5 cent. Industrial users have already gone on record as accepting a 15.75 cent price. The cane refiners favor a market price of about 15 cents in 1979. Consumers and consumer groups will generally oppose any increase in market price above the current 15.0 cent level, although they have not been very vocal in expressing their views to date.

<u>Budgetary Effects</u>. The sugar program now in effect establishes a loan rate for raw sugar equal to 52.5 percent of parity. This translates to a loan rate of 14.73 cents per pound for the 1978 crop. Under this program, the Commodity Credit Corporation has taken ownership of nearly 180,000 tons of the 1977 crop (valued at $46.2 million) and could acquire an additional 1.3 million tons (valued at $385 million), unless further steps are taken to encourage redemption of these loans. Since sugar is not highly storable, these stocks must be marketed soon after acquisition if the Government is to avoid losses associated with the sugar going out of condition.

If you elect to pursue a policy that will result in a market price of at least 15.8 cents for the 1979 crop, we expect most of this problem will take care of itself since most of the sugar now under loan will be redeemed. However, if you choose a lower level of support, disposal of CCC sugar will be substantially more difficult and budget exposure will increase.

Under existing authority, CCC stocks cannot be sold at less than 105% of the loan rate. However, we could get around this problem if Secretary Bergland were to declare sugar a non-storable commodity, enabling the CCC to sell at the market price. This would result in a lawsuit, particularly since the late Senator Humphrey and others in the Congress made clear their opinion that sugar is a storable commodity. Alternatively, we can set a 1979 crop loan rate at about 13 cents per pound, enabling the CCC to sell all sugar it acquires.

In your 1980 Budget, it is assumed that the market price objective for <u>1979</u> crop sugar will be <u>15.9 cents</u> per pound and that CCC <u>will</u> be able to sell its <u>inventory</u> of unredeemed sugar. Based on these assumptions, OMB projected repayment of outstanding loans amounting to $260 million and sales of all sugar taken over by CCC amounting to $231 million, for total receipts of $491 million in sugar price support operations. USDA advises us that these revenue projections are still realistic, given a 15.8 cent price, but any lower price runs the risk of reducing both sales and loan redemptions.

Beyond these costs, it should be noted that reliance on a direct payment approach results in a Federal outlay of about $115 million and lost tariff revenues of about $100 million for every 1 cent of payment. While these do not completely offset the consumer savings described above, they offset a significant portion of the gain.

OPTIONS

We have identified five options. At one end of the scale is a legislative option that represents the proposal most likely to have a chance of passing in Congress. At the opposite end is an option which gives the greatest weight to inflation-fighting objectives and would probably have to be instituted administratively. Each of the options (except Option 5) has two components -- a specific program for the 1979 crop, and general guidelines with respect to policy or program for subsequent crops. In all cases, regardless of which option is selected, we would recommend that the option be represented as the Administration's "bottom line" position.

Option 1. For the 1979 crop, the market price would be set at 15.8 cents per pound -- the same level we agreed to in last year's bill. The price for 1978, of course, would remain at 15.0 cents, which you have already set. If Congress insists on a higher total level of support, we would agree to accept additional support only in the form of a small direct payment not to exceed 0.5 cents.

During the remaining 3 or 4 years covered by the legislation, the objective would be to maintain price and income support levels high enough to permit domestic sugar and HFCS producers to satisfy the growth in the domestic sweetener market and, at the same time, maintain imports at the relatively stable level of 4.8-5.2 million tons per year. This would mean a gradual reduction in the level of domestic sugar production, and a continuing increase in the level of production of HFCS.

We would prefer to keep the authority for price escalation as general as possible. If an escalator is included we would propose to link it to increases in the cost of production, excluding land costs, and to set an upper limit to the increase in any one year.

Option 2. For the 1979 crop, we would establish a market support price of 15.2 cents plus a 0.5 cent direct payment. During the remaining three or four years covered by the legislation, the program would be established on the following principles:

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(1) The initial (1979/1980) market price, set at the partial cost of production, would be escalated as costs of sugar production, excluding land, rose.

(2) With that price (and the ½¢ payment) imports should be approximately constant; corn sweetner production would rise and domestic sugar production would fall.

(3) Whenever imports rose (fell) by more than 10 percent above (below) a base of 5.3 million tons the Secretary could raise (lower) the price, via changing the import fee, by up to 2½ percent, to limit the rise (fall) in imports.

15.0
+.8
15.8

Option 3. Another alternative would be to hold the 1979 market price at the 1978 level of 15 cents, supplementing that with a payment of up to 0.8 cents. This would produce about the same level of total support but would be totally non-inflationary. It too would be adjusted in years beyond 1979 by changes in cost of production, excluding land costs.

Option 4. This option would, using existing authority, provide a market price of 13.5 cents plus a payment of 1.7 cents for a total support of 15.2 cents. It is consistent with the Administration's initial 1978 proposal but not with the proposal we ultimately supported or with the 15 cent price we are now supporting. The 1979 level of support for producers (as indicated by the target price) would be 15.2 cents, made up of a market price of 13.5 cents and a payment of 1.7 cents.

The target price of 15.2 cents is consistent with the partial cost-of-production concepts applied to other crops; and the 13.5 cent market price is both visibly anti-inflationary and well within the pattern of other crop-support programs. Other figures, however, could be selected under this option. Any market price under 15.0 cents would be, in varying degrees, anti-inflationary; and direct payments could be set lower than 1.7 cents (if, for example, it were desired to signal a long-term intention to decrease sugar supports) or at higher levels (if, for example, higher target prices were found to be politically necessary).

Option 5. This option, which is suggested by OMB, would not legislate a specific market price. Rather it would provide the Secretary of Agriculture with authority to set a market price for sugar that is "fair to producers and consumers", with such price to be met through import fees and duties only. OMB further recommends that we indicate Administration willingness to support a market price of 15.9 cents for the 1979 crop, the same price assumed for the 1980 budget.

EVALUATION OF THE OPTIONS

Option 1 would be the easiest to achieve legislatively. It would thereby give the best chances of achieving ratification of the ISA. It would also help avoid additional budget costs above our FY'80 projection of CCC takeover of sugar now under loan. It might help satisfy the corn sweetener industry, providing them with an economic incentive to bring unutilized capacity into production. It is consistent with the position taken on the legislation last year, which we visibly attempted to pass. It would help politically with Senator Long and others. However, this option has inflationary consequences, adding about $200 to $250 million in crop year 1979 to consumer prices in excess of this year's 15 cent price and $575 to $700 million in excess of the Option 4 price; it encourages submarginal producers to remain in the industry at the expense of the consuming public; it is based on full costs of production, and thereby exacerbates the tendency of the price level to determine, and thus increase over time, the level of costs in this industry; and by automatically ratcheting up prices on the basis of production costs, it encourages other countries to ratchet up the price range of the ISA. But its price increase over 1978 is only 5.3 percent, and it does not increase prices at all above what we agreed to last year.

Option 2 has the advantage of holding imports at historical levels, thereby protecting consumers from a precipitous rise in prices and foreign producers from a loss in export earnings. This option would provide corn sweeteners with less incentive to expand production and, as a result, would probably slow the transition from sugar to HFCS.

On the other hand, this option will be difficult if not impossible to sell to the Congress and to producer groups and it would mean an almost certain veto of a Congressionally-passed bill -- with the consequent vacuum that it would create. It would also require public recognition that the domestic sugar industry faces an adjustment that will require cut-backs in production and the closing of more of the older, less efficient processing plants than would Option 1. In terms of inflation, neither a 15 cent nor a 15.2 cent price would take advantage of the opportunity to demonstrate anti-inflationary action on food prices. As a result, it would increase the difficulty of persuading labor and business organizations to comply with the anti-inflation program. It will be viewed as an abdication of the legislative position we openly took on the sugar bill a few months ago.

Option 3 has most of the same strengths and weaknesses as Option 2. It would offer slightly greater consumer savings but would be even more vigorously opposed by the corn sweetener and Hawaiian sugar producers, given the higher payments.

Option 4 would yield significant consumer savings. By lowering the market price of sugar, this approach would provide a dramatic example -- one of the very few available this year -- of the Administration's seriousness in fighting inflation. This option and option 2 are the only ones consistent with the partial cost-of-production concepts applied to other crops and, since it can be used to signal an intention to narrow or close the gap between domestic and world prices, it is the option most consistent with free international trade based on the principle of comparative economic advantage.

This option would save consumers about $375 to $450 million compared with the current 15 cent price and would lower government expenditures tied to the CPI by about $30 million. However, off-setting this would be a revenue loss of $144 million, direct payments of $200 million, as well as the budget costs associated with the acquisition and disposal of CCC stocks.

The disadvantage of this option is that because the direct payment element is relatively large, it would be impossible to achieve with new legislation. It would therefore create the serious risk that the ISA would go unratified and would mean a certain veto. A target price of 15.2 cents, while higher than the current 15 cent price, would also be seen as insufficient by producers. This approach would therefore invite repeated attempts by producers to enact legislation in the future, though the same could also be said, to a lesser degree, of option 2. It would also reverse the 15 cent market price we are supporting now for the 1978 crop year (a decision you made only a few months ago) and would be viewed on the HIll as an abdication of the legislative position we took last year.

Option 5 provides an element of flexibility that could help avoid the unforeseen consequences that a legislated minimum price coupled with a legislated escalation formula are likely to bring. Yet, we do not expect such general authority to be acceptable to the Congress.

Summary. Practically speaking, we believe option 1 is the only option that has any chance of acceptance within the Congress. Thus, a decision to pursue any of the other options will very likely entail a fight on the Hill and perhaps a veto. With the exception of option 4, we do not think the differences are worth the political capital that would have to be expended in their defense. Option 4 offers significant consumer savings, although it does so at the cost of probable loss of the ISA and some economic dislocation and adjustment within the domestic sugar industry. This adjustment would hit Hawaii and Florida particulary hard, if a payment limitation were imposed, as seems likely. It would be an abdication of the position we took on last year's bill and of the 15.0 cent price we are now supporting for 1978. It would have no chance of Congressional passage.

All things considered, we strongly prefer Option 1.

DECISION

__✓__ Option 1 -- 15.8/0.5 (USDA, State, Henry Owen*, DPS) (CL)

______ Option 2 -- 15.2/0.5 (CEA)

______ Option 3 -- 15.0/0.8 (Treasury, Esther Peterson)

______ Option 4 -- 13.5/1.7 (Fred Kahn, DOL)

______ Option 5 -- 15.9 (OMB)**

I will not go above 15.8¢ mkt price. Get a commitment fm Long, Church & others to support this price & to ratify / pass ISA. No need to come back to me. J

* Favors no payment

** OMB's second choice, as indicated in the attached memorandum, is Option 1.

NOTE: NSC recommends that you delay any public announcement (or any decision) by the Administration which would increase the duty on sugar until after your trip. While Mexico is not a significant producer of sugar itself, one of Lopez Portillo's principal objectives will be to try to reduce U.S. trade barriers. He will be eager to point to an example of protectionism by you, and an increase in the duty on sugar would present him with such an example. In addition, he would be happy to show his credentials as an international leader by taking up the case for his Latin American colleagues, who will react very strongly and negatively to such an act. Since Senators Long and Church have both urged you to be more sensitive to Mexico, we think they would be hard pressed to deny you an opportunity to talk to Lopez Portillo about this before it is announced.

We strongly disagree with this recommendation. Mexico is not an important exporter of sugar to the U.S. We believe Latin American countries will be much more interested in U.S. ratification of the ISA than in a possible future increase in import fees and will applaud our efforts to achieve an accommodation with the Congress to make ratification possible.

As you may know from approaches made by Prime Minister Manley of Jamaica and other hemispheric leaders, many developing countries are extremely concerned with our inability to ratify the international sugar agreement. The United States exercised leadership in putting the agreement together in 1977. Our lack of ratification has created unstable conditions in the sugar market and depressed earnings of countries from the Dominion Republic to Thailand. These earnings will probably fall even further if other participants in the agreement lose faith in our professed intention to participate and the agreement falls apart.

MCINTYRE ATTACHMENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr.

SUBJECT: Sugar Policy

To assist you in your examination of the alternative sugar programs set forth in the Eizenstat-Daft memo, we have prepared a table showing the estimated budget impact of each proposal.

The following table shows the increases over your 1980 budget associated with each option in the Eizenstat memorandum, and the deviation from the CPI projected in your economic report.

Option in Eizenstat Memo	Mkt.price/ dir. pymt.	Total Increase over 1980 Budget ($M)	Deviation from Proj. CPI (%)
5	15.9/0	-	-
1	(15.8/0	+11	*
	(15.8/0.5	+73	*
2	15.2/0.5	+139	*
3	15.0/0.8	+197	*
4	13.5/1.7	+472	-0.1

* rounded to nearest 1/10 of 1 percent

We strongly believe alternative 5, the OMB option (which is very similar to Agriculture's option except for the direct payment) is most preferable. We would not fix a price target or escalation formula in law nor seek a direct payment to producers. We would indicate that we would achieve the 15.9¢ market price through administratively-set import fees. Of the remaining options, we would find Agriculture's acceptable, but would strongly oppose the remaining options, all of which would cause major budget increases.

None of the choices posed to you is particularly palatable. All involve either budget costs above our FY 1980 budget <u>or</u> sugar prices above the current market. The latter set <u>of</u> choices (higher market prices) clearly add a small amount to inflation; the former (higher budget costs) will require us to estimate higher FY 1980 budget outlays within a month of submission. We have chosen higher sugar prices as the least bad of these alternatives.

EIZENSTAT ATTACHMENT

THE WHITE HOUSE

WASHINGTON

February 10, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT
FRANK MOORE

SUBJECT: Sugar Legislation

Of all the major pieces of legislation handled by the Finance Committee -- the countervailing duty waiver, real wage insurance, hospital cost containment, the MTN, national health insurance, welfare reform, Social Security reforms, carryover basis, energy taxes -- Senator Long unquestionably regards sugar as the most important to his political future.

He is concerned about his reelection in 1980 and believes his campaign burden would be markedly eased with a satisfactory sugar bill. Louisiana's economy is significantly affected by the sugar industry -- more so than any other state. Because of his chairmanship, Senator Long is judged in the state much more by his performance on sugar than on MTN or real wage insurance or Social Security reforms. That is the one matter coming before his Committee where he is expected to protect his State's interests, and he is acutely sensitive to that fact. (Your conversations with him on Finance Committee matters have been very much like ours: they inevitably turn to sugar, and he talks about it with a passion not seen on any other legislation.)

It would obviously be an exaggeration to say that our cooperation with Long on sugar will ensure his cooperation on our priorities flowing through his Committee (or in SALT and other foreign policy issues where he is influential with conservative and Southern Senators). But our cooperation would help significantly. For example, shortly after his talk with you last week, Senator Long scheduled both hearings and mark-up sessions on hospital cost containment in March with the clear intention of moving that legislation through the Senate regardless of House action.

Another Senator preoccupied with sugar legislation is Frank Church, the Foreign Relations Committee Chairman, who faces a stiff reelection campaign in 1980 largely because he is perceived as having neglected his State's interests. Idaho beet sugar interests are putting great pressure on Church and he is absolutely dedicated to getting a sugar bill this year. Most attention has been focused on Long, but Senator Church is equally devoted to the issue. Accommodating his needs on sugar will be reciprocated on a variety of foreign policy issues (despite the fact that Church believes the politically astute course would call for him to oppose many of our initiatives -- normalization, SALT, etc.).

Option 1 in the decision memo is slightly below what the sugar industry would like. But we believe it is acceptable to Senators Long and Church, and we feel that he will work with us to secure it enactment. We also believe that Option 1 is the best we can expect from this Congress. Without our support it may be possible to prevent any other option from passing. But that will prolong the sugar agony for another year, and keep us from dealing effectively with Senators Long and Church on <u>our</u> priorities.

<u>No other option</u> has a reasonable chance of passing the Congress and <u>could</u> be a prescription for a certain veto. Option 1 is <u>simply</u> last year's bill (which we negotiated and supported), has a chance of passing, and will help ensure ratification of the International Sugar Agreement.

BERGLAND ATTACHMENT

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

Feburary 6, 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Sugar Policy

Background

Our sugar program is a mess.

World prices remain depressed. They are below costs for even the most efficient producers. World stocks are a record proportion of the annual consumption requirement.

- o The U.S. still has not ratified the International Sugar Agreement, although we were instrumental in developing it, and we signed it in December 1977.
- o We do not have legal authority to fully implement the agreement.
- o If the U.S. does not ratify and implement the agreement soon, it will almost certainly collapse.
- o The collapse of the ISA would very seriously destabilize world sugar prices for years to come, and it would seriously damage the economies of many countries which depend heavily on sugar for foreign exchange and income. It would seriously damage our credibility and image in sugar exporting nations. Since most sugar exporters are developing countries, it could more than offset our AID efforts to alleviate their economic problems.

Our domestic sugar program is in very serious trouble.

- o We have a 15¢ market price objective, but the market price has yet to reach 15¢. Current fees and tariffs do not appear to be adequate to establish the 15¢ price, nor do we have authority to go to the levels of duties and fees necessary to achieve our price objective.
- o We have a 15¢ market price objective and a Congressionally mandated minimum loan level of 14.73¢ for 1978. When 7 percent interest charges are considered, many producers find it more profitable to forfeit sugar under loan than to redeem it, and that is what they are doing to a disturbing degree.

- The government owns \$50.5 million worth of 1977 crop sugar now and expects that total to reach about \$55 million.

- We expect loans on nearly \$800 million worth of 1978 sugar and much of that will be forfeited, unless the domestic market price rises.

- Imported sugar is being used while domestic sugar is going under loan. When the CCC sugar is sold later on, it will reduce imports. In both cases, serious economic dislocations result.

- CCC-owned sugar cannot be sold unless the market price rises to 105 percent of the loan (i.e. 15.5¢) plus reasonable carrying charges, under current legislative authority.

- Some CCC-owned sugar will go out of condition during the coming year and must be sold at a loss.

- While the 1978 program supports prices and incomes for sugar producers, it offers minimal wage protection for sugar workers. Many lack wage standards, and there is inadequate provision for enforcement of even existing minimum wage standards.

- The payments program operated during part of the 1977 crop year continues to be contested in the courts.

Partly as a result of our sugar program and policies, some parts of the domestic industry are in serious economic difficulty.

- The January planting intentions report indicates an 11 percent reduction in sugar beet acreage in 1979.

- Four sugar beet processing factories owned by Utah and Idaho, Inc. lost money last year, and they are being closed. The Department of Agriculture, along with representatives of several other agencies, is working on economic assistance to Utah, Idaho and Washington communities affected by these plant closings. Unless the market price rises, there will be further closings.

- Several small mills have closed in Louisiana, although 1979 sugarcane production is projected to be slightly above last year.

- The prices sugar producers are receiving are below our estimates of the national average cost of production. Many producers are losing money.

Last year we insisted upon major reliance on direct payments to support sugar producer incomes. The argument for payments rests on expected consumer savings from lower costs. But payments cost the government heavily through lost revenues from duties and tariffs, and from the cost of the payments themselves. And, using payments in 1979 to keep the market price low could cost the government very substantial amounts--more than \$1 billion above projected budget outlays for the sugar loan program in FY 1979 and FY 1980. These costs do not include the cost of the payments themselves, which would be paid in FY 1981 or the losses in duties and fees to the General Fund.

- o There is powerful opposition to heavy reliance on direct payments. Many sugar producers, the high fructose corn sweetener industry and many corn producers oppose the use of direct payments. Others oppose the use of payments without a payment limitation. We support payment limits for other crops but cannot apply them to sugar because of the structure of the industry. As a result, proposals for heavy reliance on direct payments cannot be passed, and I believe, should not be proposed.

- o In the closing hours of the last session of Congress, the Administration supported a 15.75¢ total support level--15¢ market price plus 0.75¢ payment--for the 1978 crop. In December you issued a proclamation designed to support a 15¢ market price.

- o We also agreed to support either of 2 1979 programs--one with total support of 16.5¢, or one with total support of 16.62¢ per pound. The market price objective would have been either 15.5 or 15.8¢ per pound.

A sound sugar program, supported by sugar users and most segments of the sugar industry, now appears to be within reach.

Sweetener interests have been meeting with Administration representatives, and there is agreement on most provisions of a realistic bill. The differences, where they exist, are narrow:

- o All support the provisions concerning the implementation of the International Sugar Agreement.

- o All support the use of duties and fees to protect the domestic market price, and all favor removing the 50 percent ad valorum limit on sugar import fees so that the gap between the world and domestic price can always be fully closed.

- o All support provisions directing the USDA to estimate the cost of producing, processing and refining sugar and high fructose corn sweeteners, and to use these findings as a major factor in determining the level of total support to the domestic sugar industry for sugar supply years beginning with 1980.

- o All support relative stability in imports of sugar and in domestic production of sugar and fructose. There is the recognition and appreciation of the fact that fructose will compete effectively in our sweetener market, and that some of the least efficient sugarcane and sugar beet producers and processors may not be able to remain in business.

- o The range of difference in the support level for the 1979 crop among consumer, user, refiner, processor and producer interests is from about 15.8-16.3¢ per pound, below the level we agreed to support late in the last session of Congress.

- o There continues to be strong opposition to the use of payments, but it appears a payment of a maximum of 0.5¢ per pound could be obtained in legislation, without having a payment limitation attached.

- o All outside interests recognize that the market price will have to rise in the years to come. The only question is the magnitude of the increase. Most of the outside interests will support a market price increase that is consistent with the anti-inflation guidelines, but some favor a smaller increase.

- o There is at least tenuous support for wage provisions for sugar workers, to be enforced by the U.S. Department of Labor.

The major remaining question is: What price increase is in accord with the anti-inflation program?

The argument is made that increases in sugar prices are inflationary. Certainly sugar price increases, like any other price increases, do have an impact on consumer expenditures and inflation.

However, price increases are essential for many American industries to cover increases in costs they cannot control, and the domestic sugar industry is no exception.

We are working in close cooperation with the Council on Wage and Price Stability in monitoring and assessing the sources of price inflation in the entire food and agriculture sector of the economy. In that effort, we recognized early that a system that only monitored prices of products sold by agricultural input or food businesses would be totally inadequate. To have a credible program, not only must selling prices be monitored but so must prices paid by the firm or industry of concern, and their profits.

This approach must apply to the sugar question also. In fact, we absolutely control the price of sugar, and will continue to do so unless the world price rises to the domestic price, which is a rare event. Since we control the price of sugar, we also control the growth or demise of the domestic industry. This is a major responsibility that does not fall upon my shoulders for most other agricultural commodities. Except for dairy products, tobacco and peanuts, all others are under a different system, where the price is free to move. And even for those three, the price can move above the support price without an automatic action by the government to reduce it. Only for sugar do we have such completely regulated prices.

Thus, the fundamental question is what kind of a sugar industry do we want in this country? The Congress will help us decide this question, but my recommendation is that we design sugar price policies to lead to relative stability in our domestic market, and to relative stability in our level of sugar imports. I believe that we should establish as a policy objective the maintenance of our sugar imports in the 4.8-5.2 million ton range (exclusive of imports from Puerto Rico, which are covered by the U.S. sugar program).

I believe it is in the national interest that we permit high fructose corn sweeteners (HFCS) to continue to compete with other sweeteners for an increasing share of the domestic sweetener market. HFCS are a very significant and growing factor in the domestic sweetener market because they substitute directly for sugar in many uses, and they cost less to produce. As a result, we should not attempt to institute a program with payments so large that the economic advantage HFCS has over domestic sugar is effectively eliminated.

And, while there is no justification for inefficient plants or inefficient producers, we should avoid massive, sudden economic dislocation in the domestic sugar industry. Adjustment should be gradual so that it can be based on long-term economic efficiencies and so that the adjustment impacts can be minimized.

I am recommending that we support the market price of sugar in 1979 at 15.8¢ per pound. That is the level consistent with the policy objectives articulated above, and is the level we agreed to at the end of the last session of Congress.

And, I recommend price levels for subsequent years that permit domestic sugar and HFCS producers to satisfy the growth in the domestic sweetener market and, at the same time, maintain imports at the relatively stable level of 4.8-5.2 million tons per year. This would mean a gradual reduction in the level of domestic sugar production, and a continuing increase in the level of production of HFCS.

I believe this proposal would find strong support from sweetener interests. Frankly, I feel that a 15.8¢ price is realistic politically and that any lower price is not.

Mr. President, our price support proposals for the sugar industry have been consistently far below the cost of production for the domestic industry. Long after it was clear that there was no realistic chance of agreement on a program depending heavily on payments, we repeatedly fought for such programs. In spite of our commitment to a viable domestic industry, we are operating a program with support levels that imply major economic adjustments for the domestic industry. Many domestic producers are in serious trouble as a result. We have lost a large measure of political capital and credibility in the process and we have, partly as a result, a virtually unworkable program.

Now the industry badly wants legislation, and so do we. Without legislation, we will very likely lose the ISA, and suffer very serious international consequences from its loss. Furthermore, the collapse of the ISA will destabilize the world sugar price. Lower world sugar prices could make it impossible to support domestic prices at current levels. Without legislation the sugar loan program may incur budget outlays more than $1 billion in excess of projected levels for the two FY 1979-80 budgets. The government could end up owning 2 million tons of sugar or more by early 1980. And, low domestic sugar prices imply substantial economic adjustments for the domestic sugar industry with requests for adjustment assistance from the government.

We have momentum now in our work with the industry. We have commitments from the Hill to work with us if we can develop the industry support that seems well within reach. However, I believe that if we do not propose a program along the lines I have outlined, the Congress will pass a more expensive program--more expensive to consumers and more expensive to the government. And, our need for legislative authority may be so acute by then that it will be very difficult to veto even an expensive bill.

I believe that we should propose a 15.8¢ market price to the Congress, and hold firmly to that proposal. In the event that Congress insists on a higher total level of income support for sugar producers, we should agree to accept additional income support only in the form of a small direct payment, and only if justified by determinations based on increases in the cost of production of sweeteners. Any direct payment should not exceed 0.5¢.

A 15.8¢ market price is consistent with the assumptions in our FY 1980 budget, although it is a very slightly lower price. That budget assumes a 15.9¢ sugar price and revenues of $26 million from repayment of loans and $231 million from sales of CCC owned sugar, for a total of $592 million in sugar revenues. I believe these revenue projections are still realistic, given a 15.8¢ price. But, I also believe that any lower price level runs the extremely serious risk of reducing both the sales and the loan redemptions and, therefore, the risk of a major negative impact on the FY 1979 and FY 1980 budgets.

The time is ripe. We can obtain legislation that is reasonable and responsible. I urge that we move quickly to obtain a bill. If you have any concerns or questions regarding my recommendation, I would appreciate the opportunity to meet with you and your other advisors to fully discuss the matter.

Bob Bergland

BOB BERGLAND
Secretary

ESTHER PETERSON
ATTACHMENT

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

February 9, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: ESTHER PETERSON E.P.

SUBJECT: Sugar Legislation

In your State of the Union message to Congress, you committed the Administration to working toward a non-inflationary domestic sugar program and ratification of the International Sugar Agreement. I am confident that achievement of these two objectives will be in the interests of consumers both in the near term and over the long run.

Consistent with your commitment and those objectives, I recommend a legislative program which maintains the market price at its present level of 15.0 cents per pound for the 1979 crop year, with such additional support as may be necessary to be provided through deficiency payments.

Should you feel that it is necessary to raise market prices above current levels in order to secure ratification of the International Sugar Agreement, I would urge that in no event the market price be raised in excess of that allowed by your anti-inflation program. A price of 15.47 cents per pound is the maximum allowable and some argue that no more than 15.36 cents would be consistent with the guidelines.

While I realize that the International Sugar Agreement will provide substantial long term benefits, I feel that acceptance of a legislative package which violates your own anti-inflation guidelines is too high a price to pay for its ratification. Proposing such a program as an administrative initiative would be even worse.

If it were not for the sizeable long term benefits which can potentially accrue from ratification of the International Sugar Agreement, economic considerations alone would suggest a lower price and a more rapid adjustment of the domestic industry to world market conditions than would occur under the proposal I am recommending.